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NEW APPLICATION

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BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN

JIM IRVIN
COMMISSIONER

MARC SPITZER
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF
KMC DATA, LLC, FOR A CERTIFICATE OF
CONVENIENCE AND NECESSITY TO
PROVIDE COMPETITIVE FACILITIES-
BASED AND RESOLD LOCAL EXCHANGE
AND RESOLD INTEREXCHANGE
TELECOMMUNICATIONS SERVICES IN THE
STATE OF ARIZONA AND PETITION FOR
COMPETITIVE CLASSIFICATION OF
PROPOSED SERVICES

Docket No. _____

APPLICATION

KMC Data, LLC ("KMC Data," "Applicant" or "Company"), by its attorneys and pursuant to A.R.S. § 40-281 and Ariz. Admin. Code R14-2-1103 and R14-2-1101 to -1115, respectfully requests that the Arizona Corporation Commission ("Commission") grant it a Certificate of Convenience and Necessity ("CC&N") to provide competitive local exchange telecommunications services on a resale and facilities basis through the local service territories of Qwest Corporation ("Qwest"), as well as competitive resold inter-exchange telecommunications services throughout the State of Arizona. KMC Data also submits its Petition for Competitive Classification of the proposed services. In support of its Application, KMC Data provides the following information:

APPLICATION FOR CERTIFICATE OF CONVENIENCE AND NECESSITY

I. IDENTIFICATION OF THE APPLICANT

A. Corporate Information

1. KMC Data is a limited liability company formed and existing under and by virtue of the laws of the State of Delaware. The Company was formed on January 10, 2001, and is headquartered at: 1545 Route 206, Suite 300, Bedminster, New Jersey 07921, (908) 470-2100. KMC Data is a wholly-owned subsidiary of KMC Telecom Holdings, Inc. ("KMC Holdings") which is a holding company incorporated in Delaware. A copy of KMC Data's Certificate of Formation is appended hereto as *Exhibit A*.

2. KMC Data was organized to provide state-of-the-art telecommunications services in Tier III Markets (population from 100,000 to 750,000). KMC Data will target business, government and institutional end-users, as well as Internet service providers, long distance carriers and wireless providers in the State of Arizona and throughout the United States. A diagram of the Company's corporate structure is appended hereto as *Exhibit B*.¹

3. KMC Data is qualified to do business in Arizona. A copy of the Company's Authorization to Transact Business in Arizona is appended hereto as *Exhibit C*. The Company does not yet have an office in Arizona, however, the name and address of the

¹ KMC Holdings, the parent company of KMC Data and its affiliates, is currently seeking approval from the various state commissions in the affected jurisdictions for a series of intra-corporate transactions whereby the operations of four of its wholly-owned subsidiaries, KMC Telecom Inc. ("KMC I"), KMC Telecom II, Inc. ("KMC II"), KMC Telecom III, Inc. ("KMC III") and KMC Telecom IV, Inc. ("KMC IV"), will be consolidated into a single entity, KMC III, with KMC I and KMC II being dissolved as corporate entities. In Arizona, no such approval has been sought, because none of the affected affiliates has a presence in the State. *Exhibit B* reflects the company's corporate structure both before and after the proposed corporate reorganization.

1 Company's registered agent in Arizona for service of process is:

2 CT Corporation System
3 3225 North Central Avenue
4 Phoenix, AZ 85012

5 **B. Officers**

6 4. The following is a list of KMC Data's officers:

7 William F. Lenahan	Chief Executive Officer
8 Roscoe C. Young II	President and Chief Operating Officer
9 William H. Stewart	Chief Financial Officer
10 Alan Epstein	Secretary
11 Robert Hagan	Senior Vice President of Finance
12 Constance Loosemore	Vice President, Assistant Treasurer and Assistant Secretary
13 Julie DeSantis	Assistant Secretary

14 These officers will be responsible for KMC Data's telecommunications services in Arizona
15 and throughout the United States. The full business experience of these key management
16 and operational personnel is set forth in detail in *Exhibit D*.

17 5. The following is a list of KMC Data's directors:

18 Harold N. Kamine, Chairman
19 Roscoe C. Young, II
20 William H. Stewart

21 The profiles of these directors are appended hereto as *Exhibit E*.
22
23
24

6. All of the above-referenced officers and directors may be reached at the following address:

KMC Data, LLC
1545 Route 206, Suite 300
Bedminster, New Jersey 07921-2567
Telephone (908) 470-2100
Facsimile (908) 719-8775

7. Those persons specifically in charge of KMC Data's Arizona operations are still to be determined; however, in the interim, all questions regarding the Company's Arizona operations may be addressed to:

Tricia Breckenridge
Executive Vice-President, Business Development
KMC TELECOM HOLDINGS, INC.
1755 North Brown Road
Lawrenceville, Georgia 30043
Telephone (678) 985-7900
Facsimile (678) 985-6213
tbreck@kmctelecom.com

II. DESIGNATED CONTACTS

8. The designated contacts for this application are:

Michael Patten
ROSHKA HEYMAN & DEWULF, P.L.C.
Two Arizona Center
400 North Fifth Street, Suite 1000
Phoenix, Arizona 85004-3906
Telephone: (602) 256-6100
Facsimile: (602) 256-6800
email: mpatten@rhd-law.com

Genny Morelli
Eric D. Jenkins
KELLEY DRYE & WARREN LLP
1200 19th Street, N.W., Suite 500
Washington, D.C. 20036
Telephone: (202) 955-9600
Facsimile: (202) 955-9792

Copies of all correspondence, notices, inquiries and orders also should be sent to the following individual, who is Applicant's initial contact person for all regulatory and compliance issues:

Michael Duke

Director-Governmental Affairs
KMC TELECOM HOLDINGS, INC.
1755 North Brown Road
Lawrenceville, Georgia 30043
Telephone (678) 985-6266
Facsimile (678) 985-6213

III. DESCRIPTION OF APPLICANT'S BUSINESS HISTORY

9. KMC Data intends to operate as a provider of facilities-based local exchange telecommunications services and resold long distance telecommunications services to business customers in the State of Arizona and throughout the United States.

10. As of the date of this filing, KMC Data and its affiliates are authorized by virtue of certification, registration, or (where appropriate) on an unregulated basis to provide local exchange and/or interexchange telecommunications services in such jurisdictions as reflected in the chart appended hereto as *Exhibit F*.¹

11. In addition to Arizona, KMC Data is currently seeking authority to provide local exchange and intrastate interexchange services in the remaining 49 states and Washington, D.C.

12. To date, KMC Data has not been denied any requested authority to provide telecommunications services filed in any state, nor has KMC Data had its authorization to provide telecommunications services revoked in any state. The Company has not been nor is it currently involved in any formal complaint proceedings before any state or federal regulatory commission. KMC Data has never been involved in any civil or

¹ However, it should be noted that KMC Holdings has undertaken a series of transactions to effect the consolidation of KMC I, KMC II, KMC III and KMC IV into a single entity, KMC III. Following the completion of the proposed consolidation all telecommunications licenses will be held by the surviving entity, KMC III.

1 criminal investigations related to the delivery of telecommunications services. The
2 Company has not had any judgment entered against it in any civil or criminal matter or
3 been convicted of any criminal acts related to the delivery of telecommunications services.

4 13. KMC Data currently is not providing telephone service in Arizona.

5 **IV. PROPOSED SERVICES TO BE OFFERED BY APPLICANT IN ARIZONA**

6 14. By this Application, KMC Data seeks the authority from the
7 Commission to provide a full range of telecommunications and data services. KMC Data
8 intends to operate as competitive local exchange service provider on a facilities-based and
9 resale basis, as well as an interexchange service provider on a resale basis within the state
10 of State of Arizona. Specifically, KMC Data seeks authority to provide all forms of
11 switched and dedicated telecommunications services, including but not limited to the
12 following local services:

- 13 • ***“Plain Old Telephone Service” -- originating and terminating***
14 ***local calls;***
- 15 • ***Access Service – originating and terminating traffic between a***
16 ***customer premise and an IXC POP;***
- 17 • ***Private Line;***
- 18 • ***Data transmission service; and***
- 19 • ***Internet services.***

20 KMC Data further seeks authority to provide the following interexchange telecommuni-
21 cations services:

- 22 • ***Basic “1+” long distance service – also known as Message***
23 ***Telecommunications Services (“MTS”);***
- 24 • ***Wide Area Telecommunications Service (“WATS”); and***
- ***Toll-free telecommunications service.***

1 With respect to the geographic coverage area for its intended services, KMC Data
2 requests authority to operate as a competitive local exchange carrier in all areas defined by
3 the existing exchange areas in which Qwest is authorized to operate and as an Inter-
4 exchange Carrier for the entire State of Arizona. KMC Data anticipates serving only
5 business customers at this time. Due to the time-sensitive nature of KMC Data's business
6 plan, KMC Data respectfully requests expedited grant of the authority on or before July 30,
7 2001, to commence provision of competitive local exchange services within the State of
8 Arizona.

9 17. KMC Data will provide its local exchange services in the State of
10 Arizona pursuant to the terms and conditions set forth in its proposed intrastate local
11 exchange telecommunications services tariff, appended hereto as *Exhibit G*.

12 18. The Company will not require advance payments or deposits from its
13 customers.

14 19. Initially, KMC Data's plans to deploy NEBS (Network Equipment
15 Building Standards)¹ compliant Media Gateway Controller (MGC) and Media Gateway
16 (MG) equipment in non-ILEC collocation space such as carrier hotels for interconnection
17 to ILECs and IXC providers. MGC and MG equipment will interconnect with ILEC
18 networks using Inter Machine Trunks (IMT's) at a Point of Presence (POP). At present,
19 the Applicant has no switches or other facilities installed in the State of Arizona. A
20 diagram of the technology deployed in KMC Data's network can be found attached hereto
21 as *Exhibit H*. KMC Data notes, however, that its network configuration may changes as it
22

23 ¹ NEBS defines a rigid and extensive set of performance, quality, environmental and
24 safety requirements developed by Bellcore (now called Telcordia Technologies).

1 continues to install and maintain a technically advanced network, which will allow it to
2 provide the highest levels of reliability, security and capacity that its target customers
3 typically demand.

4 KMC Data has no plans to construct outside plant or loop distribution equipment at
5 the current time.

6 20. KMC Data will provide all of its retail local exchange customers with
7 access to 911 or E-911 emergency services through arrangements with other local
8 exchange carriers. KMC Data will cooperate with existing local exchange carriers to
9 arrange for the necessary interconnection to permit efficient completion of these calls.
10 Additionally, KMC Data intends to pursue, as appropriate, number portability arrange-
11 ments with other local exchange carriers. KMC Data also intends to participate, as
12 appropriate, in the Arizona Universal Service Fund.

13 21. Because service quality is one of the important criteria by which
14 customers will select and judge their local service provider, KMC Data will commit to
15 meeting or exceeding the service quality standards as set forth in ARIZ. ADMIN. CODE. R14-
16 2-1114.

17 **V. INTERCONNECTION**

18 21. KMC Data expects to enter into an interconnection agreement with
19 Qwest in the near future, in accordance with Sections 251 and 252 of the Communications
20 Act of 1934, as amended by the Telecommunications Act of 1996, and will file its
21 negotiated interconnection agreement with the Commission for approval once it has been
22 finalized.

1 **VI. PROPOSED TARIFF**

2 22. All of the regulated telecommunications services offered by KMC
3 Data in Arizona will be provided pursuant to the terms and conditions set forth in KMC
4 Data's illustrative intrastate services tariff, which is appended hereto as *Exhibit G*. KMC
5 Data has not included in its maximum initial rates in its illustrative tariff. The rates to be
6 included in this proposed tariff are dependent, in part, on interconnection arrangements.
7 Upon grant of the requested authority and the conclusion of its interconnection negotia-
8 tions, and before providing services in Arizona, the Applicant will file with the
9 Commission its final tariff, which will include the final rates – both maximum and offered
10 – for its local exchange and intrastate interexchange telecommunications services provided
11 in Arizona.

12 **V. SERVICE AREA**

13 23. KMC Data seeks authority to offer local exchange service throughout
14 the local services territories of Qwest in the State of Arizona, and the authority to provide
15 interexchange service throughout the state of Arizona.

16 **VI. EXPECTED TIMEFRAME FOR PROVIDING SERVICE IN ARIZONA**

17 24. KMC Data expects to be providing telecommunication service by
18 July 30, 2001.

19 **VII. DESCRIPTION OF MANAGERIAL, TECHNICAL AND FINANCIAL ABILITY OF**
20 **APPLICANT**

21 25. In support of its application, KMC Data submits the following
22 information to demonstrate that it has sufficient managerial and technological telecom-
23 munications experience and expertise, as well as the financial stability adequate to ensure
24 its continued provision of quality local exchange and interexchange telecommunications

1 services within the State of Arizona.

2 **A. Managerial and Technical Qualifications**

3 26. As demonstrated below, Applicant is well-qualified, managerially,
4 technically, and financially to provide the competitive local exchange services for which
5 authority is requested in this Application.

6 27. **Managerial.** A highly qualified team of management personnel, all of
7 whom have extensive backgrounds in the telecommunications industry, leads the
8 Applicant. The names, titles and backgrounds of the officers and directors of KMC DATA
9 are attached hereto as *Exhibits D* and *E*.

10 28. **Technical.** Applicant has an excellent network operations team, all of
11 whom have extensive experience in developing and operating state-of-the art telecommuni-
12 cations infrastructures. KMC Holdings is successfully providing a wide range of
13 telecommunications services in numerous states. KMC Data, or its affiliates, has not been
14 denied authority to provide any telecommunications service in any state. The names, titles
15 and backgrounds of the officers and directors of KMC DATA are attached hereto as
16 *Exhibits D* and *E*.

17 **B. Financial Qualifications**

18 29. Applicant, through the strength of its parent corporation, KMC
19 Holdings, has access to ample capital to compete effectively in the market and provide
20 telecommunications services in the State of Arizona. To this end, appended to this
21 Application as *Exhibit I* is a notarized statement from KMC Holdings guaranteeing
22 financial support of the Applicant in its endeavor to obtain certification and provide
23 telecommunications services in the State of Arizona as described in this Application. Both
24

1 a description of KMC Holdings' financial qualifications and a copy of KMC Holdings'
2 most recent SEC Form 10-Q and a 4th quarter financial press release are appended hereto as
3 *Exhibit J*. KMC Data itself is a recently-formed entity and does not yet have meaningful
4 financial information that is specific to its operations.

5 **VIII. KMC DATA'S GOVERNMENT APPROVALS**

6 30. KMC Data will obtain the appropriate governmental approvals to
7 conduct its proposed operations in Arizona.

8
9 **PETITION FOR COMPETITIVE CLASSIFICATION
10 OF PROPOSED SERVICES**

11 31. Pursuant to Ariz. Admin. Code R14-2-1108, KMC Data respectfully
12 requests that the Commission classify all the services the Company proposes to offer to
13 customers in Arizona as competitive telecommunication services. In support of this request,
14 KMC Data offers the following information regarding the relevant market conditions for
15 these services:

16 **I. DESCRIPTION OF RELEVANT MARKET CONDITIONS**

17 32. In addition to the incumbent local exchange carrier Qwest, many other
18 carriers currently offer local and/or long distance telecommunications services to business
19 customers in the State of Arizona. Because there are many telecommunications carriers from
20 which business customers may choose for the provision of their local and long distance
21 services, the market for these services may be appropriately described as competitive.

22 33. To date, KMC Data has not provided any local facilities-based or resold
23 interexchange telecommunications services in the State of Arizona. Thus, if the Commission
24

1 grants this Application, KMC Data will enter the competitive intrastate telecommunications
2 market with no market power.

3 **II. CONCLUSION**

4 34. Accordingly, because the market for the services that KMC Data
5 proposes to offer to customers in Arizona is competitive, and because KMC Data will enter
6 the market with no market power, all of the intrastate local exchange and interexchange
7 telecommunication services which KMC Data proposes to provide in Arizona should be
8 classified by the Commission as competitive.

9 **THEREFORE**, KMC Data, LLC, respectfully requests that the Commission:
10 (i) grant a Certificate of Convenience and Necessity to KMC Data to provide competitive
11 facilities-based and resold local exchange and resold interexchange telecommunications
12 services in Arizona and (ii) classify that all the telecommunications services to be offered by
13 KMC Data are classified as competitive telecommunications services under ARIZ. ADMIN.
14 CODE R14-2-1108.

15
16 Dated: April 20, 2001.

17 Respectfully submitted,

18 **KMC DATA, LLC**

19
20 By 

21 Michael W. Patten
22 ROSHKA HEYMAN & DEWULF, P.L.C.
23 Two Arizona Center
24 400 North Fifth Street, Suite 1000
Phoenix, Arizona 85004
Telephone: (602) 256-6100
Facsimile: (602) 256-6800

ROSHKA HEYMAN & DEWULF, PLC

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Genny Morelli.
Eric D. Jenkins
Kelley Drye & Warren LLP
1200 19th Street, N.W., Suite 500
Washington, D.C. 20036
Telephone: (202) 955-9600
Facsimile: (202) 955-9792

Its Attorneys

ORIGINAL and TEN (10) COPIES filed
April 20, 2001, with:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007



EXHIBIT A
CERTIFICATE OF FORMATION

State of Delaware
Office of the Secretary of State

PAGE 1

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF
DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT
COPY OF THE CERTIFICATE OF FORMATION OF "KMC DATA LLC", FILED IN
THIS OFFICE ON THE TWELFTH DAY OF JANUARY, A.D. 2001, AT 4:30
O'CLOCK P.M.



3344825 8100

010025137

Harriet Smith Windsor

Secretary of State

AUTHENTICATION: 0918432

DATE: 01-17-01

JAN 16 2001 16:09 FR KDW

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CERTIFICATE OF FORMATION

OF

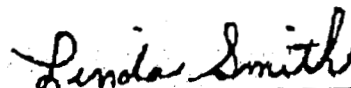
KMC DATA LLC

The undersigned, an authorized natural person, for the purpose of forming a limited liability company under the provisions of and subject to the requirements of the State of Delaware (particularly Chapter 18, Title 6 of the Delaware Code and the acts amendatory thereof and supplemental thereto, and known, identified and referred to as the "Delaware Limited Liability Company Act"), hereby certifies that:

FIRST: The name of the limited liability company is KMC DATA LLC (the "Company").

SECOND: The address of the registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Formation on the 10th day of January, 2001.



Linda Smith, Authorized Person

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 04:30 PM 01/12/2001
010025137 - 3344823

KMC DATA LLC

* * * *

**ACTION BY WRITTEN CONSENT OF
THE SOLE MEMBER**

THE UNDERSIGNED, being the Sole Member of KMC Data LLC, a Delaware limited liability company (the "Company"), does hereby take the following action by written consent pursuant to Section 18-302(d) of the Limited Liability Company Act of the State of Delaware:

RESOLVED, that the following persons are hereby elected as officers of the Company effective as of January 12, 2001 in the positions set forth across from their names to serve, subject to their current compensations, in such capacity until their successors are elected and qualified or removed as provided in the Company's limited liability company agreement:

William F. Lenahan	Chief Executive Officer
Roscoe C. Young II	President and Chief Operating Officer
William H. Stewart	Chief Financial Officer
Marcy Dean	Senior Vice President and Treasurer
Robert Hagan	Senior Vice President of Finance
Constance Loosemore	Vice President, Assistant Treasurer and Assistant Secretary
Alan M. Epstein	Secretary

IN WITNESS WHEREOF, I have hereunto set my hand as of this 12 day of January, 2001.

KMC Telecom Holdings, Inc.

By: 

Name: William H. Stewart

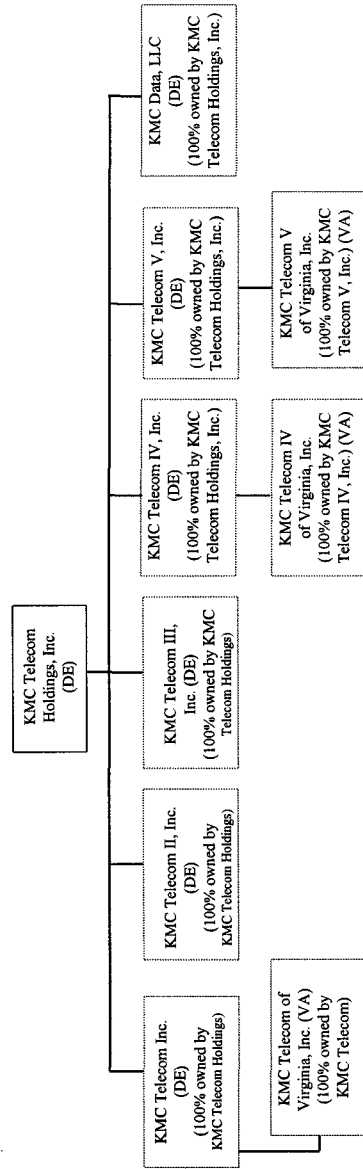
Title: CFO

Dated: As of January 12, 2001

EXHIBIT B

CORPORATE STRUCTURE CHART

KMC'S CURRENT CORPORATE STRUCTURE:



KMC'S CORPORATE STRUCTURE: POST REORGANIZATION

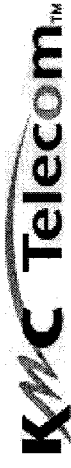
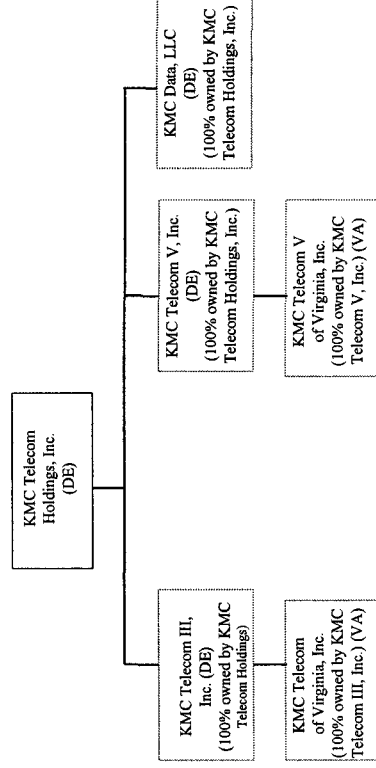


EXHIBIT C

AUTHORIZATION TO TRANSACT BUSINESS IN ARIZONA

STATE OF ARIZONA



Office of the
CORPORATION COMMISSION

*To all to whom these presents shall come, greeting:
I, Brian C. McNeil, Executive Secretary of the
Arizona Corporation Commission, do hereby certify that*

*****KMC DATA LLC*****

*A Limited Liability Company organized under the laws of
the jurisdiction of Delaware, has on this 6th day of
February, 2001 obtained this Certificate of Registration
to transact business in the State of Arizona.*

*IN WITNESS WHEREOF, I have hereunto
set my hand and affixed the official seal
of the Arizona Corporation Commission.
Done at Phoenix, the Capitol, this
7th day of February, 2001, A. D.*



Executive Secretary

BY: Mary Flores-Mastelo

EXHIBIT D

STATEMENT OF MANAGERIAL AND TECHNICAL QUALIFICATIONS

STATEMENT OF MANAGERIAL AND TECHNICAL QUALIFICATIONS

The following is a list of KMC Data, LLC's management team:

William F. Lenahan	Chief Executive Officer
Roscoe C. Young II	President and Chief Operating Officer
William H. Stewart	Chief Financial Officer
Alan Epstein	Secretary
Robert Hagan	Senior Vice President of Finance
Constance Loosemore	Vice President, Assistant Treasurer and Assistant Secretary
Julie DeSantis	Assistant Secretary

Collectively, the members of KMC Data's management team have designed, managed, and/or operated advanced telecommunications facilities throughout the United States. The members of KMC Data's management team bring many years of experience and a wealth of knowledge from being associated with a number of a highly successful companies in the telecommunications industry.

William F. Lenahan, KMC Data's Chief Executive Officer has nearly three decades of executive leadership in telecommunications, data and information technology. Before joining KMC, Mr. Lenahan served as President and CEO of BellSouth Wireless Data, a division of BellSouth Corporation. Previously, he was President and General Manager of Inacom Information Systems and an executive with Sears Business Centers, first as Vice President and General Manger and later as President and CEO. Mr. Lenahan earned a Bachelor of Science in Data Processing at Kings College and has pursued graduate studies in Business Administration, Financial Management and Financial Planning at Pace University, Harvard University and LaHulpe in Belgium.

Roscoe C. Young, II, KMC Data's President and Chief Operating Officer. Prior to joining the Company, Mr. Young was Vice President of Network Services for Ameritech, where he led more than 4,000 employees in providing services ranging from ISDN and digital Centrex to dial tone. He previously directed engineering, network services, national account sales, marketing and real estate procurement for MFS Communications as Senior Vice President of that company. He has also been a senior executive with AT&T where he was responsible for sales, marketing, operations, engineering, financial management and human resources. During that time, he was selected by the Reagan Administration to serve as a Special Assistant to Secretary of Defense Caspar Weinberger under the White House Executive Exchange Program. Mr. Young received a B.A. in Psychology from Winona State University in 1974 and an M.S. in Rehabilitation Administration from Southern Illinois University in 1977.

William H. Stewart, KMC Data's Chief Financial Officer, was previously employed with Nassau Capital. Mr. Stewart joined Nassau Capital in 1995 and has over eleven years in the telecommunications investment industry. While at Nassau Capital, Mr. Stewart led Nassau's investment program in the communications industry, which included investments in Cypress Communications, Crown Castle and Portal Software. Mr. Stewart has served as a Director of KMC Holdings since 1996. He graduated cum laude with a B.S. degree from Villanova University, earned an M.B.A. from New York University, and is a Chartered Financial Analyst.

Alan M. Epstein, Secretary of KMC Data, is a member of the Corporate Department of Kelley Drye & Warren and is the leader of the Firm's Project Finance and Infrastructure Group. He is a member of the bars of New York and New Jersey. Mr. Epstein has acted as counsel for finance companies, sponsors, equity investors and equipment suppliers in connection with project financings or leveraged leases of industrial facilities, power projects and

telecommunications systems, including vessels, cogeneration plants and waste-to-energy projects as well as commercial aircraft, cargo ships and rail equipment. Mr. Epstein has led the structuring and negotiation of numerous financing transactions, particularly power and telecommunications projects throughout the United States and abroad, particularly in Southeast Asia. He has extensive experience in financing of non-recourse and limited recourse projects. He was resident in Kelley Drye & Warren LLP's Tokyo office in 1983 and has spoken at various conferences concerning financing, project development, telecommunications and energy projects. Mr. Epstein is the author of a chapter on lease financing published by Matthew Bender & Co., Inc. Mr. Epstein is a 1974 graduate of Syracuse University College of Law.

Robert Hagan, Sr. Vice President-Finance, joined KMC in December, 1997 as Controller. In February, 1999, he was promoted to Vice President, Controller. Previously, Mr. Hagan was Vice President, Finance, with Westfalia Separator, Inc., and was Chief Financial Officer, Secretary and Treasurer, of the Lynton Group. Mr. Hagan spent five years with Ernst & Young and received his CPA in 1985. He has earned two BS degrees in Accounting and Business Management from Fairleigh Dickinson University.

Constance Loosemore, Vice President, Assistant Treasurer and Assistant Secretary joined KMC after serving as Assistant Vice President, Telecommunications and Media Group with Dresdner Kleinwort Benson. Prior to that she was the Assistant Vice President, US Project Finance Group with the Sanwa Bank. Ms. Loosemore earned a BS in Finance from the University of Tennessee.

Julie DeSantis is KMC Holdings' Assistant Secretary. Before joining KMC in March of 2000, Ms. DeSantis was the Risk Manager at both Mitsubishi International Corporation and the

Matsushita Electric Corporation of America. Ms. DeSantis received her Bachelor of Science in Business Administration in 1993 from Bryant College.

With such vast technical experience by the members of its management team, in addition to the outstanding team of engineers and network specialists it has employed, KMC Data has the adequate technical experience and managerial capability to develop and maintain a successful local exchange operation in this state.

EXHIBIT E

DIRECTOR PROFILES

HAROLD N. KAMINE, CHAIRMAN

As the founder of the KMC family of companies, Harold N. Kamine has over six years of telecommunications experience. In addition to his telecommunications management experience, Mr. Kamine has almost twenty years of power generation management experience.

Harold N. Kamine is Chairman of Kamine International Power Corp. and Chief Executive Officer and owner of Kamine Development Corp. In the United States, ten Kamine-related companies are involved in the independent power industry. Mr. Kamine's companies own and operate six unregulated non-utility power generation projects located in the northeast United States. Other Kamine affiliates are pursuing development of independent power projects in Romania and Latin America. Mr. Kamine has arranged the financing of U.S. power facilities valued at US \$375 million. Mr. Kamine's entry into the power generation industry was spurred by changing federal regulations in the early 1980's that encouraged cost efficient independent power producers to challenge regulated operators. His entry to the telecommunications industry has been spurred by similar deregulatory legislation.

Mr. Kamine graduated *summa cum laude* from Lafayette University with a Bachelor of Science Degree Mechanical Engineering. He is a Registered Professional Engineer in the State of New Jersey.

ROSCOE C. YOUNG II, DIRECTOR

Named chief operating officer in 1997, Roscoe C. Young II brings more than 20 years of telecommunications industry experience to his direction of KMC's new markets, and day-to-day operations, including management of KMC Telecom IV Inc.'s fiber optic telecommunications services in the cities in which it operates, overseeing development of new markets, and technical and engineering support. Mr. Young most recently was elected to the KMC Board of Directors

Prior to joining KMC Telecom, he was Vice President of Network Services for Ameritech, where he led more than 4,000 employees in providing services ranging from ISDN and digital Centrex to dial tone. He previously directed engineering, network services, national account sales, marketing and real estate procurement for MFS Communications as Senior Vice President of that company. He has also been a senior executive with AT&T where he was responsible for sales, marketing, operations, engineering, financial management and human resources. During that time, he was selected by the Reagan Administration to serve as a Special Assistant to Secretary of Defense Caspar Weinberger under the White House Executive Exchange Program.

WILLIAM H. STEWART

CHIEF FINANCIAL OFFICER AND EXECUTIVE VICE PRESIDENT

William Stewart joined KMC in March of 2000 as Chief Financial Officer and Executive Vice President. Mr. Stewart was most recently Managing Director of Nassau Capital, KMC's largest shareholder. Mr. Stewart joined Nassau Capital in 1995 and has more than 11 years of experience in the telecommunications investment industry. While at Nassau Capital, Mr. Stewart led Nassau's investment program in the communications industry, which included investments in Cypress Communications, Crown Castle and Portal Software. Mr. Stewart has served as a Director of KMC since 1996. He graduated cum laude with a B.S. degree from Villanova University, earned an M.B.A. from New York University, and is a Chartered Financial Analyst.

EXHIBIT F

AFFILIATE AUTHORIZATION

<u>KMC Entity</u>	<u>Authority Granted or Service Unregulated</u>	<u>Authority Pending</u>
KMC Telecom Inc.	Alabama, Florida, Georgia, Louisiana, New Hampshire, North Carolina, Texas, Wisconsin.	N/A
KMC Telecom II Inc.	Florida, Illinois, Indiana, Kansas, Michigan, Minnesota, New Hampshire (IXC), North Carolina, Texas.	N/A
KMC Telecom III, Inc.	Alabama, Arkansas, Florida, Indiana, Louisiana, Maryland, Michigan, Mississippi, Missouri, North Carolina, Ohio, South Carolina, Tennessee, Texas, West Virginia.	N/A
KMC Telecom IV, Inc.	Alabama, Georgia, Kansas, Kentucky, Mississippi, Nebraska, Nevada, Oklahoma, Texas.	N/A
KMC Telecom V, Inc.	Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maine, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire (IXC), New Jersey, New York, North Carolina, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Texas, Vermont, Washington, Washington, D.C., West Virginia, Wisconsin, Wyoming (IXC).	Alaska, Kansas, Maryland, New Mexico, North Dakota, Ohio, Tennessee, Utah, Wyoming (CLEC).
KMV Telecom of Virginia, Inc.	Virginia	N/A
KMC Telecom IV of Virginia, Inc.	Virginia	N/A
KMC Telecom V of Virginia, Inc.	Virginia	N/A

EXHIBIT G

PROPOSED INTRASTATE LOCAL EXCHANGE TARIFF

REGULATIONS AND SCHEDULE OF INTRASTATE CHARGES
APPLYING TO END-USER
TELECOMMUNICATIONS SERVICES WITHIN
THE STATE OF ARIZONA

ILLUSTRATIVE

Issued:

Effective:

Issued By:

Tricia Breckenridge
Executive Vice President of Business Development
KMC Data LLC
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Lawrenceville, GA 30043

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EXPLANATION OF SYMBOLS, REFERENCE
MARKS, AND ABBREVIATIONS OF TECHNICAL
TERMS USED IN THIS TARIFF

The following symbols shall be used in this tariff for the purpose indicated below:

- | | |
|---|--|
| C | To signify changed regulation. |
| D | To signify discontinued rate or regulation. |
| I | To signify increased rate. |
| M | To signify a move in the location of text. |
| N | To signify new rate or regulation. |
| R | To signify reduced rate. |
| S | To signify reissued matter. |
| T | To signify a change in text but no change in rate or regulation. |

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TARIFF FORMAT

- A. **Sheet Numbering** - Page numbers appear in the upper right corner of the sheet. Pages are numbered sequentially. However, new pages are occasionally added to the tariff. When a new page is added between existing pages with whole numbers, a decimal is added. For example, a new page added between pages 34 and 35 would be page 34.1.
- B. **Sheet Revision Numbering** - Revision numbers also appear in the upper right corner of the page. These numbers are used to determine the most current page version on file with the Commission. For example, 4th Revised Page 34 cancels the 3rd Revised Page 34. Consult the check sheet for the page currently in effect.
- C. **Paragraph Numbering Sequence** - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:
- 2.
 - 2.1.
 - 2.1.1.
 - 2.1.1.A.
 - 2.1.1.A.1.
 - 2.1.1.A.1.(a).
 - 2.1.1.A.1.(a).I.
 - 2.1.1.A.1.(a).I.(i).
 - 2.1.1.A.1.(a).I.(i).(1).
- D. **Check Sheet** - When a tariff is filed with the Commission, an updated check sheet accompanies the tariff filing. The check sheet lists the tariff pages, with a cross reference to the current revision number. When new sheets are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on this sheet if these are the only changes made. The tariff user should refer to the latest check sheet to find out if a particular page is the most current on file with the Commission.

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APPLICATION OF TARIFF

This tariff sets forth the service offerings, rates, terms and conditions applicable to the furnishing of intrastate end-user telecommunications services by KMC Data LLC, hereinafter referred to as the Company, to business customers within the State of Arizona.

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DEFINITIONS

Certain terms used generally throughout this tariff are defined below.

Abbreviated Dialing: Permits lines within a Customer's terminal group to place calls within the group using 1 to 7 digits.

Account Codes: Permits Centrex Stations and attendants to dial an account code number of up to eight digits. For use when placing calls over facilities arranged for Automatic Message Accounting (AMA) recording. The account or project number must be input prior to dialing the called number.

Advance Payment: Part or all of a payment required before the start of service.

Automatic Callback Calling: Allows Customers to request an automatic callback upon receiving a busy signal. Caller may signal for dial tone and dial a feature code or press a feature button to request automatic callback facilities.

Automatic Number Identification (ANI): Allows the automatic transmission of a caller's billing account telephone number to a local exchange company, interexchange carrier or a third party subscriber. The primary purpose of ANI is to allow for billing of toll calls.

Bit: The smallest unit of information in the binary system of notation.

Calling Name Delivery: Allows customers to view the name and telephone number associated with an incoming call before answering the phone.

Call Back/Camp On: Permits a station line encountering an all-trunk-busy condition the option of being notified when a trunk becomes idle.

Call Forwarding

Call Forwarding Station: Allows calls directed to a station line to be routed to a user defined line inside or outside the customer's telephone system.

Call Forwarding System: Permits calls attempting to terminate to a busy station line to be re-directed to a predetermined line inside or outside the customer's telephone system.

Call Forwarding Remote: This optional feature allows a user to activate/deactivate the Call Forwarding - All Calls feature or change the forwarded to telephone number from a remote location.

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DEFINITIONS

Call Forwarding Busy: Allows incoming calls to a busy station to be routed to a preselected station line or attendant within the same system or outside the system. Intercom calls can be arranged to be forwarded to a number different from DID calls.

Call Forwarding Don't Answer: Allows incoming calls to be automatically routed to a preselected station line or attendant in the same system or outside the system, when the called station is not answered after a preset number of rings. Intercom calls can be arranged to be forwarded to a number different from DID calls.

Call Forwarding Variable Limited: When this feature is activated by a station line user or the attendant, incoming calls to the activated station line or attendant position will be automatically routed to any other selected station line, within the same Centrex system, or to the attendant position. The attendant may also activate this feature for a station line user.

Call Forwarding Variable Unlimited: The same as Call Forwarding Variable Limited except that incoming calls may be automatically routed to a telephone number outside the Centrex system or to station lines within the same Centrex system. The attendant may not activate this feature to a telephone number outside the Centrex system for a station line use. Calls forwarded outside the Centrex system are subject to the appropriate charges for local and toll messages.

Call Hold: Allows the user to hold one call for any length of time provided that neither party goes on-hook.

Call Park: Allows a station line to park a call against its own line number. The parked call can be retrieved from any station line by dialing a feature code and the line number against which the call is parked.

Call Pickup: Allows a station line to answer incoming calls to another station line within a defined call pickup group. Call pickup is provided on individual station lines within a customer group.

Call Transfer: Allows a station line user to transfer any established call to another station line inside or outside the customer group without the assistance of the attendant.

Call Waiting: Permits a line in the talking state to be alerted by a tone when another call is attempting to complete to the line. Audible ringing is returned to the originating line. The Service also provides a hold feature that is activated by a switchhook flash.

Commission: Arizona Corporation Commission

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DEFINITIONS

Communication Services: The Company's intrastate toll and local exchange switched telephoneservices offered for both intraLATA and interLATA use.

Company or KMC: KMC Data LLC, the issuer of this tariff.

Conference: Allows customers to add additional parties to a call.

Customer or Subscriber: The person, firm or corporation that orders service and is responsible for the payment of charges and compliance with the Company's regulations.

Dial Pulse (or "DP"): The pulse type employed by rotary dial station sets.

Dial 9 Access: Allows Customers to place calls outside their ClearStar Advantage system by dialing an access code (usually 9).

Direct Inward Dial (or "DID"): A service attribute that routes incoming calls directly to stations, by-passing a central answering point.

DID Trunk: A form of local switched access that provides the ability for an outside party to call an internal extension directly without the intervention of the company operator.

Direct Outward Dial (or "DOD"): A service attribute that allows individual station users to access and dial outside numbers directly.

Do Not Disturb: Permits the attendant to cut off a single station line and selected groups of station lines from receiving incoming and station-to-station calls.

DSX-1 Panel: Distribution equipment used to terminate and administer DS1 (1.544 Mbps) circuits.

Dual Tone Multi-Frequency (or "DTMF"): The pulse type employed by tone dial station sets.

Duplex Service: Service that provides for simultaneous transmission in both directions.

Fiber Optic Cable: A thin filament of glass with a protective outer coating through which a light beam carrying communications signals may be transmitted by means of multiple internal reflections to a receiver, which translates the message.

Hunting: Routes a call to an idle station line in a prearranged group when the called station line is busy.

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DEFINITIONS

In-Only: A service attribute that restricts outward dial access and routes incoming calls to a designated answer point.

Joint User: A person, firm or corporation that is designated by the Customer as a user of services furnished to the Customer by KMC and to whom a portion of the charges for the service will be billed under a joint user arrangement as specified herein.

Kbps: Kilobits per second, denotes thousands of bits per second.

Last Number Redial: Enables a station line user to redial the last called number by use of an access code rather than dialing the entire number.

LATA: A Local Access and Transport Area established pursuant to the Modification of Final Judgment entered by the United States District Court for the District of Columbia in Civil Action No. 82-0192; or any other geographic area designated as a LATA in the National Exchange Carrier Association, Inc. Tariff F.C.C. No. 4.

Local Exchange Carrier or ("LEC"): Denotes any individual, partnership, association, joint-stock company, trust or corporation engaged in providing switched communication within an exchange.

Manual Exclusion: Restricts others from retrieving a put on hold or from breaking into a call. Applicable to ISDN centrex type services. Ensures privacy is automatically invoked whenever a customer picks up the phone to place or answer a call.

Mbps: Megabits, denotes millions of bits per second.

Message Waiting Indication: Provides a lighted indicator (usually on a telephone set) that informs customer of a new message to be reviewed.

Multi-Frequency or ("MF"): An inter-machine pulse-type used for signaling between telephone switches, or between telephone switches and PBX/key systems.

Multi Site Abbreviated Dialing: Allows customers to use abbreviated dialing capabilities among multiple locations.

Recurring Charges: The monthly charges to the Customer for services, facilities and equipment, that continue for the agreed upon duration of the service.

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DEFINITIONS

Service Commencement Date: The first day following the date on which the Company notifies the Customer that the requested service or facility is available for use, unless extended by the Customer's refusal to accept service that does not conform to standards set forth in the Service Order or this tariff, in which case the Service Commencement Date is the date of the Customer's acceptance. The Company and Customer may mutually agree on a substitute Service Commencement Date.

Service Order: The written request for Network Services executed by the Customer and the Company in the format devised by the Company. The signing of a Service Order by the Customer and acceptance by the Company initiates the respective obligations of the parties as set forth therein and pursuant to this tariff, but the duration of the service is calculated from the Service Commencement Date.

Shared: A facility or equipment system or subsystem that can be used simultaneously by several Customers.

Speed Calling: Permits a station line user to dial selected numbers by using fewer digits than normally required. This is accomplished through the assignment of abbreviated codes to frequently called numbers. The speed calling list is customer-changeable.

System: Allows shared use of speed calling list. A control station will add, change or delete telephone numbers from the list for the group.

Station: Allows a station line user to add, change or delete telephone numbers from a speed calling list. The list is dedicated to the individual station line user.

Three-Way Calling: Allows a station line user to add a third party to an existing conversation.

Two Way: A service attribute that includes outward dial capabilities for outbound calls and can also be used to carry inbound calls to a central point for further processing.

Uniform Call Distribution: Automatically distributes incoming calls, in the order of their arrival, to customer telephone lines that have been idle the longest.

User or End User: A Customer, Joint User, or any other person authorized by a Customer to use service provided under this tariff.

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REGULATIONS

2.1 Undertaking of the Company

2.1.1 Scope

The Company undertakes to furnish communications service pursuant to the terms of this tariff in connection with one-way and/or two-way information transmission between points within the State of Arizona.

Customers and users may use services and facilities provided under this tariff to obtain access to services offered by other service providers. The Company is responsible under this tariff only for the services and facilities provided hereunder, and it assumes no responsibility for any service provided by any other entity that purchases access to the Company network in order to originate or terminate its own services, or to communicate with its own customers.

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REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.2 Shortage of Equipment or Facilities

- (A) The Company reserves the right to limit or to allocate the use of existing facilities, or of additional facilities offered by the Company, when necessary because of lack of facilities, or due to some other cause beyond the Company's control.
- (B) The furnishing of service under this tariff is subject to the availability on a continuing basis of all the necessary facilities and is limited to the capacity of the Company's facilities as well as facilities the Company may obtain from other carriers to furnish service from time to time as required at the sole discretion of the Company.

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REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.3 Terms and Conditions

- (A) Service is provided on the basis of a minimum period of at least one month, 24-hours per day. For the purpose of computing charges in this tariff, a month is considered to have 30 days.
- (B) Customers may be required to enter into written service orders which shall contain or reference a specific description of the service ordered, the rates to be charged, the duration of the services, and the terms and conditions in this tariff. Customers will also be required to execute any other documents as may be reasonably requested by the Company.
- (C) At the expiration of the initial term specified in each Service Order, or in any extension thereof, service shall continue on a month-to-month basis at the then current rates unless terminated by either party upon 30 days' notice. Any termination shall not relieve the Customer of its obligation to pay any charges incurred under the service order and this tariff prior to termination. The rights and obligations which by their nature extend beyond the termination of the term of the service order shall survive such termination.
- (D) In any action between the parties to enforce any provision of this tariff, the prevailing party shall be entitled to recover its legal fees and court costs from the non-prevailing party in addition to other relief a court may award.

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REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.3 Terms and Conditions (Cont'd)

- (E) Service may be terminated upon written notice to the Customer if:
 - (1) the Customer is using the service in violation of this tariff; or
 - (2) the Customer is using the service in violation of the law.
- (F) This tariff shall be interpreted and governed by the laws of the State of Arizona regardless of its choice of laws provision.
- (G) US West Communications, Inc. ("US West") and its affiliated local telephone companies must not interfere with the right of any person or entity to obtain service directly from the Company. No person or entity shall be required to make any payment, incur any penalty, monetary or otherwise, or purchase any services in order to have the right to obtain service directly from the Company.
- (H) To the extent that either the Company or any other telephone company exercises control over available cable pairs, conduit, duct space, raceways, or other facilities needed by the other to reach a person or entity, the party exercising such control shall make them available to the other on terms equivalent to those under which the Company makes similar facilities under its control available to its customers. At the reasonable request of either party, the Company and the other telephone company shall join the attempt to obtain from the owner of the property access for the other party to serve a person or entity.

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REGULATIONS2.1 Undertaking of the Company (Cont'd)2.1.4 Liability of the Company

- (A) The liability of the Company for damages arising out of the furnishing of its Services, including but not limited to mistakes, omissions, interruptions, delays, or errors, or other defects, representations, or use of these services or arising out of the failure to furnish the service, whether caused by acts or omission, shall be limited to the extension of allowances for interruption as set forth in 2.6. The extension of such allowances for interruption shall be the sole remedy of the Customer and the sole liability of the Company. The Company will not be liable for any direct, indirect, incidental, special, consequential, exemplary or punitive damages to Customer as a result of any Company service, equipment or facilities, or the acts or omissions or negligence of the Company's employees or agents.
- (B) The Company shall not be liable for any delay or failure of performance or equipment due to causes beyond its control, including but not limited to: acts of God, fire, flood, explosion or other catastrophes; any law, order, regulation, direction, action, or request of the United States Government, or of any other government, including state and local governments having or claiming jurisdiction over the Company, or of any department, agency, commission, bureau, corporation, or other instrumentality of any one or more of these federal, state, or local governments, or of any civil or military authority; national emergencies; insurrections; riots; wars; unavailability of rights-of-way or materials; or strikes, lock-outs, work stoppages, or other labor difficulties.

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REGULATIONS2.1 Undertaking of the Company (Cont'd)2.1.4 Liability of the Company (Cont'd)

- (C) The Company shall not be liable for any act or omission of any entity furnishing to the Company or to the Company's Customers facilities or equipment used for or with the services the Company offers.
- (D) The Company shall not be liable for any damages or losses due to the fault or negligence of the Customer or due to the failure or malfunction of Customer-provided equipment or facilities.
- (E) The Company does not guarantee nor make any warranty with respect to installations it provides for use in an explosive atmosphere. The Customer indemnities and holds the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted, or asserted by any other party or person(s), and for any loss, damage, or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal presence, condition, location, or use of any installation so provided. The Company reserves the right to require each Customer to sign an agreement acknowledging acceptance of the provisions of this section 2.1.4(E) as a condition precedent to such installations.

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REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.4 Liability of the Company (Cont'd)

- (F) The Company is not liable for any defacement of or damage to Customer premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof, unless such defacement or damage is caused by negligence or willful misconduct of the Company's agents or employees.
- (G) The Company shall be indemnified, defended and held harmless by the Customer against any claim, loss or damage arising from Customer's use of services, involving claims for libel, slander, invasion of privacy, or infringement of copyright arising from the Customer's own communications.
- (H) The entire liability for any claim, loss, damage or expense from any cause whatsoever shall in no event exceed sums actually paid the Company by the Customer for the specific services giving rise to the claim. No action or proceeding against the Company shall be commenced after the expiration of the applicable statute of limitations.
- (I) **THE COMPANY MAKES NO WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED EITHER IN FACT OR BY OPERATION OF LAW, STATUTORY OR OTHERWISE, INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR USE, EXCEPT THOSE EXPRESSLY SET FORTH HEREIN.**

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REGULATIONS2.1 Undertaking of the Company (Cont'd)2.1.5 Notification of Service-Affecting Activities

The Company will provide the Customer reasonable notification of service-affecting activities that may occur in normal operation of its business. Such activities may include, but are not limited to, equipment or facilities additions, removals or rearrangements and routine preventative maintenance. Generally, such activities are not specific to an individual Customer but affect many Customers' services. No specific advance notification period is applicable to all service activities. The Company will work cooperatively with the Customer to determine the reasonable notification requirements. With some emergency or unplanned service-affecting conditions, such as an outage resulting from cable damage, notification to the Customer may not be possible.

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REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.6 Provision of Equipment and Facilities

- (A) The Company shall use reasonable efforts to make available services to a Customer on or before a particular date, subject to the provisions of and compliance by the Customer with, the regulations contained in this tariff. The Company does not guarantee availability by any such date and shall not be liable for any delays in commencing service to any Customer.
- (B) The Company shall use reasonable efforts to maintain only the facilities and equipment that it furnishes to the Customer. The Customer may not, nor may the Customer permit others to, rearrange, disconnect, remove, attempt to repair, or otherwise interfere with any of the facilities or equipment installed by the Company, except upon the written consent of the Company.
- (C) The Company may substitute, change or rearrange any equipment or facility at any time and from time to time, but shall not thereby alter the technical parameters of the service provided the Customer.
- (D) Equipment the Company provides or installs at the Customer Premises for use in connection with the services the Company offers shall not be used for any purpose other than that for which it was provided by the Company.

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REGULATIONS2.1 Undertaking of the Company (Cont'd)2.1.6 Provision of Equipment and Facilities (Cont'd)

- (E) The Customer shall be responsible for the payment of service charges as set forth herein for visits by the Company's agents or employees to the Premises of the Customer when the service difficulty or trouble report results from the use of equipment or facilities provided by any party other than the Company, including but not limited to the Customer.
- (F) The Company shall not be responsible for the installation, operation, or maintenance of any Customer-provided communications equipment. Where such equipment is connected to the facilities furnished pursuant to this tariff, the responsibility of the Company shall be limited to the furnishing of facilities offered under this tariff and to the maintenance and operation of such facilities. Subject to this responsibility, the Company shall not be responsible for:
 - (1) the transmission of signals by Customer-provided equipment or for the quality of, or defects in, such transmission; or
 - (2) the reception of signals by Customer-provided equipment.

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REGULATIONS2.1 Undertaking of the Company (Cont'd)2.1.7 Non-Routine Installation

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours or in hazardous locations. In such cases, charges based on cost of the actual labor, material, or other costs incurred by or charged to the Company will apply. If installation is started during regular business hours but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

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REGULATIONS**2.1 Undertaking of the Company (Cont'd)****2.1.8 Special Construction**

Subject to the agreement of the Company and to all of the regulations contained in this tariff, special construction of facilities may be undertaken on a reasonable efforts basis at the request of the Customer. Special construction is that construction undertaken:

- (A) where facilities are not presently available, and there is no other requirement for the facilities so constructed;
- (B) of a type other than that which the Company would normally utilize in the furnishing of its services;
- (C) over a route other than that which the Company would normally utilize in the furnishing of its services;
- (D) in a quantity greater than that which the Company would normally construct;
- (E) on an expedited basis;
- (F) on a temporary basis until permanent facilities are available;
- (G) involving abnormal costs; or
- (H) in advance of its normal construction.

2.1.9 Ownership of Facilities

Title to all facilities provided in accordance with this tariff remains in the Company, its agents or contractors.

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REGULATIONS2.2 Prohibited Uses

- (A) The services the Company offers shall not be used for any unlawful purpose or for any use as to which the Customer has not obtained all required governmental approvals, authorizations, licenses, consents and permits.
- (B) The Company may require applicants for service who intend to use the Company's offerings for resale and/or for shared use to file a letter with the Company confirming that their use of the Company's offerings complies with relevant laws and Commission regulations, policies, orders, and decisions.
- (C) The Company may require a Customer to immediately shut down its transmission of signals if said transmission is causing interference to others.
- (D) A customer, joint user, or authorized user may not assign, or transfer in any manner, the service or any rights associated with the service without the written consent of the Company. The Company will permit a Customer to transfer its existing service to another entity if the existing Customer has paid all charges owed to the Company for regulated communications services. Such a transfer will be treated as a disconnection of existing service and installation of new service, and non-recurring installation charges as stated in this tariff will apply.

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REGULATIONS

2.3 Obligations of the Customer

2.3.1 General

The Customer shall be responsible for:

- (A) the payment of all applicable charges pursuant to this tariff;
- (B) damage to or loss of the Company's facilities or equipment caused by the acts or omissions of the Customer; or the noncompliance by the Customer, with these regulations; or by fire or theft or other casualty on the Customer Premises, unless caused by the negligence or willful misconduct of the employees or agents of the Company;
- (C) providing at no charge, as specified from time to time by the Company, any needed personnel, equipment space and power to operate Company facilities and equipment installed on the premises of the Customer, and the level of heating and air conditioning necessary to maintain the proper operating environment on such premises;

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REGULATIONS2.3 Obligations of the Customer (Cont'd)2.3.1 General (Cont'd)

- (D) obtaining, maintaining, and otherwise having full responsibility for all rights-of-way and conduits necessary for installation of fiber optic cable and associated equipment used to provide Communication Services to the Customer from the cable building entrance or property line to the location of the equipment space described in 2.3.1(C). Any and all costs associated with obtaining and maintaining the rights-of-way described herein, including the costs of altering the structure to permit installation of the Company-provided facilities, shall be borne entirely by, or may be charged by the Company to, the Customer. The Company may require the Customer to demonstrate its compliance with this section prior to accepting an order for service;
- (E) providing a safe place to work and complying with all laws and regulations regarding the working conditions on the premises at which Company employees and agents shall be installing or maintaining the Company's facilities and equipment. The Customer may be required to install and maintain Company facilities and equipment within a hazardous area if, in the Company's opinion, injury or damage to the Company's employees or property might result from installation or maintenance by the Company. The Customer shall be responsible for identifying, monitoring, removing and disposing of any hazardous material (e.g. friable asbestos) prior to any construction or installation work;

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REGULATIONS

2.3 Obligations of the Customer (Cont'd)

2.3.1 General (Cont'd)

- (F) complying with all laws and regulations applicable to, and obtaining all consents, approvals, licenses and permits as may be required with respect to, the location of Company facilities and equipment in any Customer premises or the rights-of-way for which Customer is responsible under Section 2.3.1(D); and granting or obtaining permission for Company agents or employees to enter the premises of the Customer at any time for the purpose of installing, inspecting, maintaining, repairing, or upon termination of service as stated herein, removing the facilities or equipment of the Company;
- (G) not creating, or allowing to be placed, any liens or other encumbrances on the Company's equipment or facilities; and
- (H) making Company facilities and equipment available periodically for maintenance purposes at a time agreeable to both the Company and the Customer. No allowance will be made for the period during which service is interrupted for such purposes.

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REGULATIONS2.3 Obligations of the Customer (Cont'd)2.3.2 Claims

With respect to any service or facility provided by the Company, Customers shall indemnify, defend and hold harmless the Company from and against all claims, actions, damages, liabilities, costs and expenses, including reasonable attorneys' fees for:

- (A) any loss, destruction or damage to the property of the Company or any third party, or death or injury to persons, including, but not limited to, employees or invitees of either party, to the extent caused by or resulting from the negligent or intentional act or omission of the Customer, its employees, agents, representatives or invitees; or
- (B) any claim, loss, damage, expense or liability for infringement of any copyright, patent, trade secret, or any proprietary or intellectual property right of any third party, arising from any act or omission by the Customer, including, without limitation, use of the Company's services and facilities in a manner not contemplated by the agreement between the Customer and the Company.

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REGULATIONS2.4 Customer Equipment and Channels2.4.1 General

A User may transmit or receive information or signals via the facilities of the Company. The Company's services are designed primarily for the transmission of voice-grade telephonic signals, except as otherwise stated in this tariff. A User may transmit any form of signal that is compatible with the Company's equipment, but the Company does not guarantee that its services will be suitable for purposes other than voice-grade telephonic communication except as specifically stated in this tariff.

2.4.2 Station Equipment

- (A) Terminal equipment on the User's Premises and the electric power consumed by such equipment shall be provided by and maintained at the expense of the User. The User is responsible for the provision of wiring or cable to connect its terminal equipment to the Company Point of Connection.
- (B) The Customer is responsible for ensuring that Customer-provided equipment connected to Company equipment and facilities is compatible with such equipment and facilities. The magnitude and character of the voltages and currents impressed on Company-provided equipment and wiring by the connection, operation, or maintenance of such equipment and wiring shall be such as not to cause damage to the Company-provided equipment and wiring or injury to the Company's employees or to other persons. Any additional protective equipment required to prevent such damage or injury shall be provided by the Company at the Customer's expense.

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REGULATIONS

2.4 Customer Equipment and Channels (Cont'd)

2.4.3 Interconnection of Facilities

- (A) Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing Communication Services and the channels, facilities, or equipment of others shall be provided at the Customer's expense.
- (B) Communication Services may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs of the other communications carriers that are applicable to such connections.
- (C) Facilities furnished under this tariff may be connected to Customer-provided terminal equipment in accordance with the provisions of this tariff. All such terminal equipment shall be registered by the Federal Communications Commission pursuant to Part 68 of Title 47, Code of Federal Regulations; and all User-provided wiring shall be installed and maintained in compliance with those regulations.
- (D) Users may interconnect communications facilities that are used in whole or in part for interstate communications to services provided under this tariff only to the extent that the user is an "End User" as defined in Section 69.2(m), Title 47, Code of Federal Regulations (1992 edition).

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REGULATIONS2.4 Customer Equipment and Channels (Cont'd)2.4.4 Inspections

- (A) Upon suitable notification to the Customer, and at a reasonable time, the Company may make such tests and inspections as may be necessary to determine that the Customer is complying with the requirements set forth in Section 2.4.2(B) for the installation, operation, and maintenance of Customer-provided facilities, equipment, and wiring in the connection of Customer-provided facilities and equipment to Company-owned facilities and equipment.
- (B) If the protective requirements for Customer-provided equipment are not being complied with, the Company may take such action as it deems necessary to protect its facilities, equipment, and personnel. The Company will notify the Customer promptly if there is any need for further corrective action. Within ten days of receiving this notice, the Customer must take this corrective action and notify the Company of the action taken. If the Customer fails to do this, the Company may take whatever additional action is deemed necessary, including the suspension of service, to protect its facilities, equipment and personnel from harm.

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REGULATIONS2.5 Payment Arrangements2.5.1 Payment for Service

The Customer is responsible for the payment of all charges for facilities and services furnished by the Company to the Customer and to all Users authorized by the Customer, regardless of whether those services are used by the Customer itself or are resold to or shared with other persons.

(A) Taxes

The Customer is responsible for payment of any sales, use, gross receipts, excise, access or other local, state and federal taxes, charges or surcharges (however designated) (excluding taxes on Company's net income) imposed on or based upon the provision, sale or use of Network Services.

2.5.2 Billing and Collection of Charges

- (A) Non-recurring charges are due and payable from the customer within 30 days after the invoice date, unless otherwise agreed to in advance.
- (B) The Company shall present invoices for Recurring Charges monthly to the Customer, in advance of the month in which service is provided, and Recurring Charges shall be due and payable within 30 days after the invoice date. When billing is based on customer usage, charges will be billed monthly for the preceding billing periods.
- (C) When service does not begin on the first day of the month, or end on the last day of the month, the charge for the fraction of the month in which service was furnished will be calculated on a pro rata basis. For this purpose, every month is considered to have 30 days.

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REGULATIONS2.5 Payment Arrangements (Cont'd)2.5.2 Billing and Collection of Charges (Cont'd)

- (D) Billing of the Customer by the Company will begin on the Service Commencement Date, which is the first day following the date on which the Company notifies the Customer that the service or facility is available for use, except that the Service Commencement Date may be postponed by mutual agreement of the parties, or if the service or facility does not conform to standards set forth in this tariff or the Service Order. Billing accrues through and includes the day that the service, circuit, arrangement or component is discontinued.
- (E) If any portion of the payment is received by the Company after the date due, or if any portion of the payment is received by the Company in funds that are not immediately available, then a late payment penalty shall be due to the Company. The late payment penalty shall be the portion of the payment not received by the date due, multiplied by the lesser of the highest percentage allowable by the Commission or a late factor of 1.5% per month.
- (F) The Customer will be assessed a charge consistent with applicable state law for each check submitted by the Customer to the Company that a financial institution refused to honor.
- (G) Customers have up to 90 days (commencing 5 days after remittance of the bill) to initiate a dispute over charges or to receive credits.
- (H) If service is disconnected by the Company in accordance with section 2.5.5 following and later restored, restoration of service will be subject to all applicable installation charges

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REGULATIONS2.5 Payment Arrangements (Cont'd)2.5.3 Advance Payments

To safeguard its interests, the Company may require a Customer to make an advance payment before services and facilities are furnished. The advance payment will not exceed an amount equal to the non-recurring charge(s) and one month's charges for the service or facility. In addition, where special construction is involved, the advance payment may also include an amount equal to the estimated non-recurring charges for the special construction and recurring charges (if any) for a period to be set between the Company and the Customer. The advance payment will be credited to the Customer's initial bill. An advance payment may be required in addition to a deposit.

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REGULATIONS2.5 Payment Arrangements (Cont'd)2.5.4 Deposits

- (A) To safeguard its interests, the Company may require a Customer to make a deposit to be held as a guarantee for the payment of charges. A deposit does not relieve the Customer of the responsibility for the prompt payment of bills on presentation. The deposit will not exceed an amount equal to:
 - (1) two month's charges for a service or facility that has a minimum payment period of one month; or
 - (2) the charges that would apply for the minimum payment period for a service or facility that has a minimum payment period of more than one month; except that the deposit may include an additional amount in the event that a termination charge is applicable.
- (B) A deposit may be required in addition to an advance payment.
- (C) When a service or facility is discontinued, the amount of a deposit, if any, will be applied to the Customer's account and any credit balance remaining will be refunded. Before the service or facility is discontinued, the Company may, at its option, return the deposit or credit it to the Customer's account.
- (D) Deposits held will accrue interest at the current rate allowed by the Commission without deductions for any taxes on such deposits. Interest will not accrue on any deposit after the date on which reasonable effort has been made to return it to the Customer.
- (E) Deposits will be handled pursuant to the Commission's rules and regulations.

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REGULATIONS

2.5 Payment Arrangements (Cont'd)

2.5.5 Discontinuance of Service

- (A) Upon nonpayment of any amounts owing to the Company, the Company may, by giving 24 hours prior written notice to the Customer, discontinue or suspend service without incurring any liability.
- (B) Upon violation of any of the other material terms or conditions for furnishing service the Company may, by giving 30 days' prior notice in writing to the Customer, discontinue or suspend service without incurring any liability if such violation continues during that period.
- (C) Upon condemnation of any material portion of the facilities used by the Company to provide service to a Customer or if a casualty renders all or any material portion of such facilities inoperable beyond feasible repair, the Company, by notice to the Customer, may discontinue or suspend service without incurring any liability.

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REGULATIONS2.5 Payment Arrangements (Cont'd)2.5.5 Discontinuance of Service (Cont'd)

- (D) Upon the Customer's insolvency, assignment for the benefit of creditors, filing for bankruptcy or reorganization, or failing to discharge an involuntary petition within the time permitted by law, the Company may immediately discontinue or suspend service without incurring any liability.
- (E) Upon any governmental prohibition or required alteration of the services to be provided or any violation of an applicable law or regulation, the Company may immediately discontinue service without incurring any liability.
- (F) In the event of fraudulent use of the Company's network, the Company will discontinue service without notice and/or seek legal recourse to recover all costs involved in enforcement of this provision.
- (G) Upon the Company's discontinuance of service to the Customer under Section 2.5.5(A) or 2.5.5(B), the Company, in addition to all other remedies that may be available to the Company at law or in equity or under any other provision of this tariff, may declare all future monthly and other charges that would have been payable by the Customer during the remainder of the term for which such services would have otherwise been provided to the Customer to be immediately due and payable (discounted to present value at six percent).

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REGULATIONS2.5 Payment Arrangements (Cont'd)2.5.6 Cancellation of Application for Service

- (A) Applications for service cannot be canceled without the Company's agreement. Where the Company permits a Customer to cancel an application for service prior to the start of service or prior to any special construction, no charges will be imposed except for those specified below.
- (B) Where, prior to cancellation by the Customer, the Company incurs any expenses in installing the service or in preparing to install the service that it otherwise would not have incurred, a charge equal to the costs incurred by the Company, less net salvage, shall apply, but in no case shall this charge exceed the sum of the charge for the minimum period of services ordered, including installation charges, and all charges others levy against the Company that would have been chargeable to the Customer had service commenced (all discounted to present value at six percent).
- (C) Where the Company incurs any expense in connection with special construction, or where special arrangements of facilities or equipment have begun, before the Company receives a cancellation notice, a charge equal to the costs incurred by the Company, less net salvage, applies. In such cases, the charge will be based on such elements as the cost of the equipment, facilities, and material, the cost of installation, engineering, labor, and supervision, general and administrative expense, other disbursements, depreciation, maintenance, taxes, provision for return on investment, and any other costs associated with the special construction or arrangements.
- (D) The special charges described in 2.5.6(A) through 2.5.6(C) will be calculated and applied on a case-by-case basis.

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REGULATIONS2.5 Payment Arrangements (Cont'd)2.5.7 Changes in Service Requested

If the Customer makes or requests material changes in circuit engineering, equipment specifications, service parameters, premises locations, or otherwise materially modifies any provision of the application for service, the Customer's installation fee shall be adjusted accordingly.

2.6 Allowances for Interruptions in Service

Interruptions in service that are not due to the negligence of, or noncompliance with the provisions of this tariff by, the Customer or the operation or malfunction of the facilities, power or equipment provided by the Customer, will be credited to the Customer as set forth in 2.6.1 for the part of the service that the interruption affects.

2.6.1 Credit for Interruptions

- (A) A credit allowance will be made when an interruption occurs because of a failure of any component furnished by the Company under this tariff. An interruption period begins when the Customer reports a service, facility or circuit to be interrupted and releases it for testing and repair. An interruption period ends when the service, facility or circuit is operative. If the Customer reports a service, facility or circuit to be inoperative but declines to release it for testing and repair, it is considered to be impaired, but not interrupted.
- (B) For calculating credit allowances, every month is considered to have 30 days. A credit allowance for fixed recurring fees only is applied on a pro rata basis against the rates specified hereunder and is dependent upon the length of the interruption. Only those facilities on the interrupted portion of the circuit will receive a credit.

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REGULATIONS2.6 Allowances for Interruptions in Service (Cont'd)2.6.1 Credit for Interruptions (Cont'd)

- (C) A credit allowance will be given for interruptions of 30 minutes or more. Credit allowances shall be calculated as follows:

Interruptions of 24 Hours or Less

<u>Length of Interruption</u>	<u>Interruption Period To Be Credited</u>
Less than 30 minutes	None
30 minutes up to but not including 3 hours	1/10 Day
3 hours up to but not including 6 hours	1/5 Day
6 hours up to but not including 9 hours	2/5 Day
9 hours up to but not including 12 hours	3/5 Day
12 hours up to but not including 15 hours	4/5 Day
15 hours up to but not including 24 hours	One Day

Two or more interruptions of 15 minutes or more during any one 24-hour period shall be considered as one interruption.

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REGULATIONS

2.6 Allowances for Interruptions in Service (Cont'd)

2.6.1 Credit for Interruptions (Cont'd)

(C) (Cont'd)

Over 24 Hours and Less Than 72 Hours. Interruptions over 24 hours and less than 72 hours will be credited 1/5 day for each 3-hour period or fraction thereof. No more than one full day's credit will be allowed for any period of 24 hours.

Interruptions Over 72 Hours. Interruptions over 72 hours will be credited 2 days for each full 24-hour period. No more than 30 days' credit will be allowed for any one month period.

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REGULATIONS

2.6 Allowances for Interruptions in Service (Cont'd)

2.6.2 Limitations on Allowances

No credit allowance will be made for:

- (A) interruptions due to the negligence of, or noncompliance with the provisions of this tariff by, the Customer, authorized user, joint user, or other common carrier providing service connected to the service of the Company;
- (B) interruptions due to the negligence of any person other than the Company, including but not limited to the Customer or other common carriers connected to the Company's facilities;
- (C) interruptions due to the failure or malfunction of non-Company equipment;
- (D) interruptions of service during any period in which the Company is not given full and free access to its facilities and equipment for the purpose of investigating and correcting interruptions;
- (E) interruptions of service during a period in which the Customer continues to use the service on an impaired basis;
- (F) interruptions of service during any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements; and
- (G) interruption of service due to circumstances or causes beyond the control of Company.

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REGULATIONS

2.6 Allowances for Interruptions in Service (Cont'd)

2.6.3 Cancellation For Service Interruption

Cancellation or termination for service interruption is permitted only if any circuit experiences a single continuous outage of 8 hours or more or cumulative service credits equaling 16 hours in a continuous 12-month period. The right to cancel service under this provision applies only to the single circuit that has been subject to the outage or cumulative service credits.

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REGULATIONS2.7 Use of Customer's Service by Others2.7.1 Resale and Sharing

Any service provided under this tariff may be resold to or shared with other persons at the option of the Customer, subject to compliance with any applicable laws or rules of the Commission regulations governing such resale or sharing. The Customer remains solely responsible for all use of services ordered by it or billed to its telephone number(s) pursuant to this tariff, for determining who is authorized to use its services, and for notifying the Company of any unauthorized use.

2.7.2 Joint Use Arrangements

Joint use arrangements will be permitted for all services provided under this tariff. From each joint use arrangement, one member will be designated as the Customer responsible for the manner in which the joint use of the service will be allocated. The Company will accept orders to start, rearrange, relocate, or discontinue service only from the designated Customer. Without affecting the Customer's ultimate responsibility for payment of all charges for the service, each joint user shall be responsible for the payment of the charges billed to it.

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REGULATIONS2.8 Cancellation of Service

If a Customer cancels a Service Order or terminates services before the completion of the term for any reason whatsoever other than a service interruption (as defined in Section 2.6.1 above), the Customer agrees to pay to the Company termination liability charges, as defined below. These charges shall become due and owing as of the effective date of the cancellation or termination and be payable within the period, set forth in Section 2.5.2.

The Customer's termination liability for cancellation of service shall be equal to:

- (A) all unpaid Non-Recurring charges reasonably expended by the Company to establish service to the Customer; plus
- (B) any disconnection, early cancellation or termination charges reasonably incurred and paid to third parties by the Company on behalf of the Customer; plus
- (C) all Recurring Charges specified in the applicable Service Order Tariff for the balance of the then current term discounted at the prime rate announced in the Wall Street Journal on the third business day following the date of cancellation; minus
- (D) a reasonable allowance for costs avoided by the Company as a direct result of the Customer's cancellation.
- (E) the difference between a Customers term rates and the month-to-month rates times the actual length of service.

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REGULATIONS

2.9 Transfers and Assignments

Neither the Company nor the Customer may assign or transfer its rights or duties in connection with the services and facilities provided by the Company without the written consent of the other party, except that the Company may assign its rights and duties:

- (A) to any subsidiary, parent company or affiliate of the Company; or
- (B) pursuant to any sale or transfer of substantially all the assets of the Company; or
- (C) pursuant to any financing, merger or reorganization of the Company.

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REGULATIONS2.10 Notices and Communications

- (A) The Customer shall designate on the Service Order an address to which the Company shall mail or deliver all notices and other communications, except that the Customer may also designate a separate address to which the Company's bills for service shall be mailed.
- (B) The Company shall designate on the Service Order an address to which the Customer shall mail or deliver all notices and other communications, except that Company may designate a separate address on each bill for service to which the Customer shall mail payment on that bill.
- (C) All notices or other communications required to be given pursuant to this tariff will be in writing. Notices and other communications of either party, and all bills mailed by the Company, shall be presumed to have been delivered to the other party on the third business day following placement of the notice, communication or bill with the U.S. Mail or a private delivery service, prepaid and properly addressed, or when actually received or refused by the addressee, whichever occurs first.
- (D) The Company or the Customer shall advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth herein.

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REGULATIONS

2.11 Operator Services Rules

- (A) The Company will enforce the following operator service rules.

A provider of intrastate operator assisted communications services must:

- (1) identify itself at the time the end-user accesses its services;
- (2) upon request, quote all rates and charges for its services to the end-user accessing its system;
- (3) arrange to have posted in plain view at each telephone location which automatically accesses the operator service provider's network and where its services are made available to the public or transient end-users:
 - (a) the operator service provider's name and address;
 - (b) bill and service dispute calling information including the operator service provider's dispute resolution phone number;
 - (c) clear and specific instructions informing the end-user how to access a local exchange telephone company operator as an alternative available to the end-user; and
 - (d) notice concerning any and all amounts to be billed by the operator services provider on behalf of any host location or third party that will appear on the operator service provider's bill for services rendered.

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REGULATIONS

2.11 Operator Services Rules (Cont'd)

(A) (Cont'd)

- (4) in instances when the provider is unable to complete the call and it requires transfer to another telephone corporation that may affect the rates and charges applicable to the telephone bill, inform the caller of the transfer and its possible effect on the applicable rates and charges, before any charges are incurred; and
- (5) in the case of such transfer, the telephone corporation or provider to which the call is transferred shall identify itself and inform the caller of the transfer's effect on the applicable rates and charges, before any charges are incurred.

(B) The Company will comply with the following provisions:

- (1) Providers of intrastate operator assisted communications services shall not take any, action or enter into any arrangement that restricts end-user selection among competing interexchange telephone corporations or end-users access to competing providers of intrastate operator assisted communications services, or pay any commissions or other compensation to any entity engaged in such action or arrangement.

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APPLICATION OF RATES3.1 Introduction

The regulations set forth in this section govern the application of rates for services contained in other sections of this tariff.

3.2 Charges Based on Duration of Use

Where charges for a service are specified based on the duration of use, such as the duration of a telephone call, the following rules apply:

- (A) Calls are measured in durational increments identified for each service. All calls that are fractions of a measurement increment are rounded-up to the next whole unit.
- (B) Timing on completed calls begins when the call is answered by the called party. Answering is determined by hardware answer supervision in all cases where this signaling is provided by the terminating local carrier and any intermediate carrier(s). Timing for operator service person-to-person calls start with completion of the connection to the person called or an acceptable substitute, or to the PBX station called.
- (C) Timing terminates on all calls when the calling party hangs up or the Company's network receives an off-hook signal from the terminating carrier.
- (D) Calls originating in one time period and terminating in another will be billed in proportion to the rates in effect during different segments of the call.
- (E) All times refer to local time.

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APPLICATION OF RATES

3.3 Rates Based Upon Distance

Where charges for a service are specified based upon distance, the following rules:

- (A) Distance between two points is measured as airline distance between the rate centers of the originating and terminating telephone lines. The rate center is a set of geographic coordinates, as referenced in the Local Exchange Routing Guide issued by Bellcore, associated with each NPA-NXX combination (where NPA is the area code and NXX is the first three digits of a seven-digit telephone number). Where there is no telephone number associated with an access line on the Company's network (such as a dedicated 800 or WATS access line), the Company will apply the rate center of the Customer's main billing telephone number.

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APPLICATION OF RATES3.3 Rates Based Upon Distance (Cont'd)

(B) The airline distance between any two rate centers is determined as follows:

- (1) Obtain the "V" (vertical) and "H" (horizontal) coordinates for each rate center from the Bellcore Local Exchange Routing guide referenced in Section 3.3(A).
- (2) Compute the difference between the "V" coordinates of the two rate centers; and the difference between the two "H" coordinates.
- (3) Square each difference obtained in step (2) above.
- (4) Add the square of the "V" difference and the square of the "H" difference obtained in step (3) above.
- (5) Divide the sum of the squares by 10. Round to the next higher whole number if any fraction is obtained.
- (6) Obtain the square root of the whole number result obtained above. Round to the next higher whole number if any fraction is obtained. This is the airline mileage.
- (7) FORMULA =

$$\sqrt{\frac{(V1 - V2)^2 + (H1 - H2)^2}{10}}$$

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SERVICE AREAS

4.1 Exchange Access Service Areas

Exchange services are provided in all Exchange Access Service Areas (EASA) throughout the entire state of Arizona.

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SERVICE AREAS

4.2 Calling Areas

Geographically-defined Local Calling Areas are associated with each Exchange Access Service provided pursuant to Section 5.1. Company's local calling zone will mirror US West's calling zones

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EXCHANGE ACCESS SERVICE5.1 General

Exchange Access Service provides a Customer with a telephonic connection to, and a unique telephone number address on the public switched telecommunications network. Each Exchange Access Service enables users to:

- (A) receive calls from other stations on the public switched telecommunications network;
- (B) access other services offered by the Company as set forth in this tariff;
- (C) access certain interstate and international calling services provided by the Company;
- (D) access (at no additional charge) the Company's operators and business office for service related assistance;
- (E) access (at no additional charge) emergency services by dialing 0- or 9-1-1; and
- (F) access services provided by other common carriers that purchase the Company's Switched Access services as provided under the Company's Federal and State tariffs, or that maintain other types of traffic exchange arrangements with the Company.

Each Exchange Access Service is available on a "Full" service basis, whereby service is delivered to a demarcation/connection block at the customer's premises.

The following Exchange Access Services are offered:

Basic Line Service

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EXCHANGE ACCESS SERVICE5.2 Basic Line Service

Basic Line Service provides a Customer with a single, voice-grade telephonic communications channel that can be used to place or receive one call at a time. Basic Lines are provided for connection of Customer-provided single station sets or facsimile machines to the public switched telecommunications network. Each Basic Line may be configured into a hunt group with other Company-provided Basic Lines. Each Basic Line is provided with the following standard features which are set forth in Section 10.6 of the tariff.

Non-recurring and monthly recurring rates per Basic Line apply as follows:

	<u>Initial</u>	<u>Maximum</u>
<u>On-Net Services</u>		
Basic Local		
Exchange Service		
<u>Flat Rate Service</u>		
Recurring Monthly Charge		RESERVED FOR FUTURE USE
Non-Recurring Monthly Charge		RESERVED FOR FUTURE USE
<u>Measured Rate Service</u>		
Recurring Monthly Charge		RESERVED FOR FUTURE USE
Non-Recurring Monthly Charge		RESERVED FOR FUTURE USE
Expanded Local		
Exchange Service		
<u>Flat Rate Service</u>		
Recurring Monthly Charge		RESERVED FOR FUTURE USE
Non-Recurring Monthly Charge		RESERVED FOR FUTURE USE
<u>Measured Rate Service</u>		
Recurring Monthly Charge		RESERVED FOR FUTURE USE
Non-Recurring Monthly Charge		RESERVED FOR FUTURE USE

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EXCHANGE ACCESS OPTIONAL FEATURES6.1 Directory Listings

For each Customer of Company-provided Exchange Access Service(s), the Company shall arrange for the listing of the Customer's main billing telephone number¹ in the directory(ies) published by the dominant Local Exchange Carrier in the area at no additional charge. At a Customer's option, the Company will arrange for additional listings at the following rates:

	<u>Initial</u>	<u>Maximum</u>
Each Additional Listing:	RESERVED FOR FUTURE USE	

¹ For Customers with multiple premises served by the Company, the Company will arrange for a listing of the main billing telephone number at each premise.

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EXCHANGE ACCESS OPTIONAL FEATURES6.2 Main Number Retention6.2.1 Description

Main Number Retention is an optional feature by which a new Customer, who was formally a customer of another certificated local exchange carrier at the same premises location, may retain its main telephone numbers and main fax numbers for use with the Company-provided Exchange Access Services. Main Number Retention service is only available in areas where the Company maintains some form of number retention arrangement with the Customer's former local exchange carrier.

Monthly recurring and non-recurring charges apply per retained number. Rates for retained numbers may vary from area to area.

6.2.2 Rates

	<u>Initial</u>	<u>Maximum</u>
per retained number	RESERVED FOR FUTURE USE	
per retained vanity number	RESERVED FOR FUTURE USE	

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RESOLD LOCAL EXCHANGE SERVICE7.1 Description

Resold Local Exchange Service is composed of the resale of exchange access lines and local calling provided by other certificated Local Exchange Carriers, in combination with Company-provided usage services, miscellaneous services or interstate/international services.

7.2 Rates

The following maximum rates apply for Resold Local Exchange Services:

	<u>Initial</u>	<u>Maximum</u>
<u>Resold Basic Lines</u>		
(1) <u>Flat Rate Service</u>		
Recurring Monthly Charge		
Non-Recurring Monthly Charge		
(2) <u>Measured Service</u>		
Recurring Monthly Charge		
Non-Recurring Monthly Charge		
<u>Resold Basic Trunks²</u>		
(1) <u>Flat Rate Service</u>		
Recurring Monthly Charge		
Non-Recurring Monthly Charge		
(2) <u>Measured Service</u>		
Recurring Monthly Charge		
Non-Recurring Monthly Charge		

² Includes Hunting

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RESOLD LOCAL EXCHANGE SERVICE7.2 Rates (Cont'd)**RESERVED FOR FUTURE USE**InitiatedMaximumResold Local UsageFlat Rate Calling

Unlimited

Measured Rate CallingPeak

Intra-wire Center

1st Min

Addtl Min

All Other Local Calls

Off-Peak

Intra-wire Center

1st Min

Addtl Min

All Other Local Calls

The following rates for Local Exchange Resold Services are set forth in Section 8 and Section 10 of the tariff.

Resold features associated with Resold Local Exchange Service will be priced according to the rates established for such features in the underlying carrier's effective intrastate tariffs.

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LOCAL CALLING SERVICE8.1 Description

Local Calling Service provides a Customer with the ability to originate calls from a Company-provided access line to all other stations on the public switched telephone network³ bearing the designation of any central office exchanges, areas, and zones included in the Customer's local calling area.

8.1.1 Basic Local Exchange Service - This calling service allows the Customer unlimited access to all other stations on the public switched telephone network within the customer's Basic Local Calling Area.⁴ All calls to destinations outside the Basic Local Calling Area but within the same state and LATA will be charged the IntraLATA rates as specified in Section 9.3 following.

8.1.2 Expanded Local Exchange Service - This calling service allows the Customer limited access to all other stations on the public switched telephone network within the Customer's Basic Local Calling Area. Additional calls to the Basic Local Calling Area will be charged as specified in Section 8.2.1(A) following. All calls to the Expanded Local Calling Area² will be charged a per call setup and per minute access charge as specified in Section 8.2.1(B) following. All calls to destinations outside the Expanded Local Calling Area but within the same state and LATA will be charged the IntraLATA rates as specified in Section 9.3 following.

³ Except calls to other telephone companies' caller paid information services (e.g. NPA 900, NXX 976, etc.). Calls to those numbers and other numbers used for caller-paid information services will be blocked by the Company's centralized switching facility.

⁴ As specified in US West's tariff in effect and as amended from time-to-time.

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LOCAL CALLING SERVICE8.1 Description (Cont'd)8.1.2 Expanded Local Exchange Service (Cont'd)(A) Time Periods

Day and Night/Weekend rates apply as follows:

<u>Rates</u>	<u>From</u>	<u>To (but not including)</u>	<u>Days Applicable</u>
Day	9:00 A.M.	9:00 P.M.	Mon. - Fri.
Night/Weekend	All other days, times, and holidays.		

Holidays include New Year's Day (January 1), Independence Day (July 4), Labor Day (the first Monday in September), Thanksgiving Day (the fourth Thursday in November), and Christmas Day (December 25).

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LOCAL CALLING SERVICE8.2 Rates

The rates set forth in this section apply to all direct dialed local calls. For operator-assisted local calls, the operator charges listed in Section 10.1.3 apply in addition to the charges listed below.

8.2.1 Usage Charges - Per minute charges apply for each call. Timing is in whole minute increments, with a minimum charge of one minute per call.

(A) Monthly Message Allowance

<u>Type of Service</u>	<u>Basic Calling Area</u>	<u>Extended Calling Area</u>
Basic Local Exchange Service	TBD	TBD ⁵
Expanded Local Exchange Service	TBD	TBD

*Additional message charge of \$X.XX for each message over monthly allowance.

(B) Expanded Calling Area - The following usage charges apply to points in the Customer's Expanded Calling Area.

<u>MILEAGE</u>	<u>SETUP PER CALL</u>	<u>PEAK</u>	<u>OFF-PEAK</u>
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⁵ Customers of Basic Local Exchange Service are billed intraLATA rates for calls to destinations within the state and LATA but outside the Basic Local Calling Area.

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INTRALATA CALLING SERVICE9.1 Description

IntraLATA calling service provides a Customer with the ability to originate calls from a Company-provided access line to all other stations on the public switched telephone network⁶ bearing the designation of any central office exchanges, areas, and zones outside of the Customer's Basic Calling Area but within the same state and LATA.

9.2 Time Periods

Day, Evening and Night/Weekend rate periods are shown below. On holidays, Evening rates will apply unless a lower rate will normally apply.

<u>Rates</u>	<u>From</u>	<u>To (but not including)</u>	<u>Days Applicable</u>	<u>Discount Applicable</u>
Day	8:00 A.M.	12:00 P.M.	Mon. - Fri.	0%
	1:00 P.M.	5:00 P.M.	Mon. - Fri.	0%
Evening	5:00 P.M.	11:00 P.M.	Mon. - Fri.	25%
Night/ Weekend	All other times			50%

Holidays include New Year's Day (January 1), Independence Day (July 4), Labor Day (the first Monday in September), Thanksgiving Day (the fourth Thursday in November), and Christmas Day (December 25).

⁶ Except calls to other telephone companies' caller paid information services (e.g. NPA 900, NXX 976, etc.). Calls to those numbers and other numbers used for caller-paid information services will be blocked by the Company's centralized switching facility.

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INTRALATA CALLING SERVICE9.3 Rates

<u>MILEAGE</u>	<u>FIRST MINUTE</u>	<u>ADDITIONAL MINUTE</u>
0 - 8	\$0.0550	\$0.0440
9 - 12	\$0.0660	\$0.0550
13 - 16	\$0.0825	\$0.0660
17 - 21	\$0.0990	\$0.0825
22 - 26	\$0.1265	\$0.0990
27 - 31	\$0.1265	\$0.1100
32 - 41	\$0.1265	\$0.1210
42 - 56	\$0.1265	\$0.1265
57 - 71	\$0.1265	\$0.1265
72 - 87	\$0.1265	\$0.1265
88 - 127	0.1265	\$0.1265
128 +	\$0.1265	\$0.1265

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MISCELLANEOUS SERVICES10.1 Operator Services10.1.1 Description

Operator Handled Calling Services are provided to Customers and Users of Company-provided Exchange Access Services, and to Customers and Users of exchange access lines.

10.1.2 Definitions

Person--Person: Calls completed with the assistance of a Company operator to a particular person, station, department, or PBX extension specified by the calling party. Charges may be billed to the Customer's commercial credit card and/or LEC calling card, calling station, called station, or a designated third-party station. Calls may be dialed with or without the assistance of a Company operator.

Station-to-Station: Refers to calls other than person-to-person calls billed to either the end user's commercial credit card and/or nonproprietary calling card. Calls may be dialed with or without the assistance of a Company operator. Collect calls to coin telephones and transfers of charges to third telephones which are coin telephones will not be accepted.

Operator Dialed Charge: The end user places the call without dialing the destination number, although the capability to do it himself exists. The end user will dial "0" for local calls and "00" for long distance calls and then request the operator to dial the called station.

Billed to Non-Proprietary Calling Card: Refers to calls that are dialed by the customer in accordance with standard dialing instructions and billed to a non-proprietary calling card issued by another carrier.

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MISCELLANEOUS SERVICES10.1 Operator Services (Cont'd)10.1.3 Rates

Local exchange and IntraLATA calls may be placed on an Operator Assisted basis. Usage charges for Operator Assisted calls are the same as those set forth in Sections 8 and 9, preceding. In no event will the maximum rate for Operator Assisted calls exceed the maximum US West rate on file for such services. For Operator Assisted calls to Busy Line Verification and Interrupt, or Directory Assistance, the surcharges specified in Section 10.2.3 and Section 10.1.3 will apply in addition to any applicable Operator charges.

In addition to the usage charges identified above, the following operator-assisted charges will apply:

<u>Per Call Charges</u>	<u>IntraLATA</u>	<u>InterLATA</u>
Person-to-Person (Operator Assisted)	RESERVED FOR FUTURE USE	
Station-to-Station (Operator Assisted)	RESERVED FOR FUTURE USE	
Collect	RESERVED FOR FUTURE USE	
Sent Paid	RESERVED FOR FUTURE USE	
Billed to Third Number	RESERVED FOR FUTURE USE	
Operator Dialed Charge (applies in addition to other operator charges)	RESERVED FOR FUTURE USE	
Billed to Non-Proprietary Calling Card (additional surcharge)	RESERVED FOR FUTURE USE	
Directory Assistance	RESERVED FOR FUTURE USE	
Directory Assistance Call Completion	RESERVED FOR FUTURE USE	

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MISCELLANEOUS SERVICES

10.2 Busy Line Verify and Line Interrupt Service

10.2.1 Description

Upon request of a calling party the Company will verify a busy condition on a called line.

- (A) The operator will determine if the line is clear or in use and report to the calling party.
- (B) The operator will interrupt the call on the called line only if the calling party indicates an emergency and requests interruption.

10.2.2 Regulations

- (A) A charge will apply when:
 - (1) The operator verifies that the line is busy with a call in progress.
 - (2) The operator verifies that the line is available for incoming calls.
 - (3) The operator verifies that the called number is busy with a call in progress and the customer requests interruption. The operator will then interrupt the call, advising the called party the name of the calling party. One charge will apply for both verification and interruption.

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MISCELLANEOUS SERVICES10.2 Busy Line Verify and Line Interrupt Service (Cont'd)10.2.2 Regulations (Cont'd)

(B) No charge will apply:

(1) When the calling party advises that the call is to or from an official public emergency agency.

(2) Under conditions other than those specified in 10.2.2(A) preceding.

(C) Busy Verification and Interrupt Service is furnished where and to the extent that facilities permit.

(D) The Customer shall identify and hold the Company harmless against all claims that may arise from either party to the interrupted call or any person.

10.2.3 RatesInitialMaximumBusy Line Verify Service
(each request)**RESERVED FOR FUTURE USE**Busy Line Verify and Busy Line
Interrupt Service (each request)**RESERVED FOR FUTURE USE**

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MISCELLANEOUS SERVICES10.3 Service Implementation10.3.1 Description

Absent a promotional offering, service implementation charges will apply to new service orders or to orders to change existing service.

10.3.2 Rates

	<u>Initial</u>	<u>Maximum</u>
per service order	\$84.00	RESERVED FOR FUTURE USE
Resold Non-Recurring		
On-Net Recurring		

10.4 Restoration of Service10.4.1 Description

A restoration charge applies to the re-establishment of service and facilities suspended because of nonpayment of bills and is payable at the time that the re-establishment of the service and facilities suspended is arranged for. The restoration charge does not apply when, after disconnection of service, service is later re-established.

10.4.2 Rates

	<u>Initial</u>	<u>Maximum</u>
per occasion	\$84.00	RESERVED FOR FUTURE USE
Resold Non-Recurring		
On-Net Recurring		

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MISCELLANEOUS SERVICES10.5 Charges for Connecting or Changing ServiceInitialMaximum

Line Connection Charge

Applies per exchange access line or trunk,

First Line

\$84.00 **RESERVED FOR FUTURE USE**

Resold Non-Recurring

RESERVED FOR FUTURE USE

On-Net Recurring

RESERVED FOR FUTURE USE

Line Change Charge

Applies per exchange access line or trunk

First Line

\$8.00 **RESERVED FOR FUTURE USE**

Resold Non-Recurring

RESERVED FOR FUTURE USE

On-Net Recurring

RESERVED FOR FUTURE USE

Secondary Service Charge

Applies per customer request

Each

\$8.00 **RESERVED FOR FUTURE USE**

Resold Non-Recurring

RESERVED FOR FUTURE USE

On-Net Recurring

RESERVED FOR FUTURE USE

Premises Work Charge

First 15-minute increment or fraction thereof

Per increment

\$17.00 **RESERVED FOR FUTURE USE**

Resold Non-Recurring

RESERVED FOR FUTURE USE

On-Net Recurring

RESERVED FOR FUTURE USE

Each Additional 15-minute increment or fraction thereof

Per increment

\$9.00 **RESERVED FOR FUTURE USE**

Resold Non-Recurring

RESERVED FOR FUTURE USE

On-Net Recurring

RESERVED FOR FUTURE USE

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MISCELLANEOUS SERVICES10.6 Custom Calling Service10.6.1 Resold Rates**RESERVED FOR FUTURE USE**

Business/Business PBX

Individual Features:

InitialMaximum

(a)	Call Waiting	\$X.XX
(b)	Call Forwarding Variable	\$X.XX
(c)	Three-Way Calling	\$X.XX
(d)	Speed Calling (8-code)	\$X.XX
(e)	Speed Calling (30-code)	\$X.XX
(f)	Call Forwarding Busy Line	\$X.XX
(g)	Call Forwarding Don't Answer	\$X.XX
(h)	Call Forwarding Don't Answer - Ring Control	\$X.XX
(i)	Customer Control of Call forwarding Busy Line	\$X.XX
(j)	Customer Control of Call Forwarding Don't Answer	\$X.XX
(k)	Call Forwarding Busy Line Multipath or Customer Control of Call Forwarding Busy Line Multipath	\$X.XX
(l)	Call Forwarding Don't Answer Multipath or Customer Control of Call Forwarding Don't Answer Multipath	\$X.XX
(m)	Call Forwarding Variable Multipath or Remote Access- Call Forwarding Variable Multipath	\$X.XX
(n)	Remote Access - Call Forwarding Variable	\$X.XX

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MISCELLANEOUS SERVICES10.6 Custom Calling Service (Cont'd.)10.6.1 Resold Rates (cont'd.)**RESERVED FOR FUTURE USE**

Business/Business PBX			
Individual Features:		<u>Initial</u>	<u>Maximum</u>
(o)	Call Return (per line)		
	Recurring Monthly Charge		\$X.XX
	Call Return (per use)		
	Non-Recurring	\$X.XX	
	Call Return (denial of per use)		
	Non-Recurring	\$X.XX	
(p)	Repeat Dialing (per line)		
	Recurring Monthly Charge		\$X.XX
	Repeat Dialing (per use)		
	Non-Recurring	\$X.XX	
	Repeat Dialing (denial of per use)		
	Non-Recurring	\$X.XX	
(q)	Call Selector (per line)		
(r)	Preferred Call Forwarding (per line)		\$X.XX
(s)	Call Block (per line)		\$X.XX
(t)	Call Tracing (per line)		
	Per line		\$X.XX
	Per Successful Trace (non-subscription) N/A		
(u)	Caller ID (per line)		
	Caller ID - Calling Name Delivery		\$X.XX
	Caller ID - Calling Number Delivery		\$X.XX
	Caller ID - Calling Number & Name		\$X.XX
(v)	Calling Number Delivery Blocking -		\$X.XX
	Permanent Per line		
(w)	Calling Number Delivery Blocking -		\$X.XX
	Per Call (Per activation)		
(x)	Enhanced Caller ID (with ACR) Per Line		\$X.XX
(y)	Enhanced Caller ID		
	(with Call Management) Per Line		\$X.XX
(z)	Enhanced Caller ID		
	(with ACR & Call Management) Per Line		\$X.XX

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MISCELLANEOUS SERVICES10.7 Remote Call ForwardingRates

The following charge is for the Remote Call Forwarding feature only and are in addition to applicable charges for service and equipment.

Remote Call Forwarding is per feature arranged and one access path for either interexchange, intraexchange, or local calling area per service request.

	<u>Initial</u>	<u>Maximum</u>
Each	RESERVED FOR FUTURE USE	
Non-Recurring	RESERVED FOR FUTURE USE	
Monthly	RESERVED FOR FUTURE USE	

Additional Access Path (with initial installation)

Each	RESERVED FOR FUTURE USE
Non-Recurring	RESERVED FOR FUTURE USE
Monthly	RESERVED FOR FUTURE USE

	<u>Initial</u>	<u>Maximum</u>
Each	RESERVED FOR FUTURE USE	
Non-Recurring	RESERVED FOR FUTURE USE	
Monthly	RESERVED FOR FUTURE USE	

Additional Access Path (with initial installation)

Each	RESERVED FOR FUTURE USE
Non-Recurring	RESERVED FOR FUTURE USE
Monthly	RESERVED FOR FUTURE USE

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MISCELLANEOUS SERVICES10.8 Flexible Call Forwarding

The following charge is for the Flexible Call Forwarding feature only and are in addition to applicable charges for service and equipment.

Flexible Call Forwarding is an optional network feature that provides customer control for call forwarding capabilities via dial-accessed voice prompt menus.

<u>Rates-Individual Features</u>	<u>Initial</u>	<u>Maximum</u>
Flexible Call Forwarding	RESERVED FOR FUTURE USE	
Resold Non-Recurring	RESERVED FOR FUTURE USE	
On-Net Recurring	RESERVED FOR FUTURE USE	
Flexible Call Forwarding with Audio Calling Name	RESERVED FOR FUTURE USE	
Resold Non-Recurring	RESERVED FOR FUTURE USE	
On-Net Recurring	RESERVED FOR FUTURE USE	

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SPECIAL ARRANGEMENTS

11.1 Special Construction

11.1.1 Basis for Charges

Where the Company furnishes a facility or service for which a rate or charge is not specified in the Company's tariffs, charges will be based on the costs incurred by the Company and may include:

- (A) non-recurring type charges;
- (B) recurring type charges;
- (C) termination liabilities; or
- (D) combinations thereof.

11.1.2 Termination Liability

To the extent that there is no other requirement for use by the Company, a termination liability may apply for facilities specially constructed at the request of the customer.

- (A) The termination liability period is the estimated service life of the facilities provided.
- (B) The amount of the maximum termination liability is equal to the estimated amounts for:

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SPECIAL ARRANGEMENTS

11.1 Special Construction (Cont'd)

11.1.2 Termination Liability (Cont'd)

(B) (Cont'd)

- (1) Cost installed of the facilities provided including estimated costs for rearrangements of existing facilities and/or construction of new facilities as appropriate, less net salvage. Cost installed includes the cost of:
 - (a) equipment and materials provided or used,
 - (b) engineering, labor and supervision,
 - (c) transportation, and
 - (d) rights-of-way;
- (2) license preparation, processing, and related fees;
- (3) tariff preparation, processing, and related fees;
- (4) cost of removal and restoration, where appropriate; and
- (5) any other identifiable costs related to the specially constructed or rearranged facilities.

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SPECIAL ARRANGEMENTS

11.1 Special Construction (Cont'd)

11.1.2 Termination Liability (Cont'd)

- (C) The applicable termination liability method for calculating the unpaid balance of a term obligation. The amount of such charge is obtained by multiplying the sum of the amounts determined as set forth in Section 11.1.2(B) preceding by a factor related to the unexpired period of liability and the discount rate for return and contingencies. The amount determined in section 11.1.2(B) preceding shall be adjusted to reflect the redetermined estimate net salvage, including any reuse of the facilities provided. This product is adjusted to reflect applicable taxes.

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SPECIAL ARRANGEMENTS

11.2 Individual Case Basis (ICB) Arrangements

Arrangements will be developed on a case-by-case basis in response to a bona fide request from a Customer or prospective Customer to develop a competitive bid for a service offered under this tariff. Rates quoted in response to such competitive requests may be different than those specified for such services in this tariff. ICB rates will be offered to the Customer in writing and on a nondiscriminatory basis. All ICB rates are subject to Commission approval.

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SPECIAL ARRANGEMENTS

11.3 Temporary Promotional Programs

The Company may establish temporary promotional programs wherein it may waive or reduce non-recurring or recurring charges, to introduce present or potential Customers to a service not previously received by the Customers. All promotions are subject to Commission approval.

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INTEREXCHANGE SERVICE

12.1 Rates Charged Based on Timing of Calls

Where charges for service are specified based on the timing of calls, such as the duration of a telephone call, the following rules apply:

12.1.1 When Billing Charges Begin and Terminate For Phone Calls

The Customer's long distance usage charge is based on the actual usage of the Company's network. Usage begins when the called party picks up the receiver, (i.e. when two-way communication, often referred to as "conversation time," is possible). When the called party picks up is determined by hardware answer supervision in which the local telephone company sends a signal to the switch or the software utilizing audio tone detection. When software answer supervision is employed, up to 60 seconds of ringing is allowed before it is billed as usage of the network. A call is terminated when the calling or called party hangs up.

12.1.2 Billing Increments

Unless otherwise specified in this tariff, the minimum call duration for billing purposes is 1 minute for a connected call. Calls beyond 1 minute are billed in 1 minute increments.

12.1.3 Per Call Billing Charges

Billing will be rounded up to the nearest penny for each call.

12.1.4 Uncompleted Calls

There shall be no charges for uncompleted calls.

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INTEREXCHANGE SERVICE**12.2 Rates Based Upon Calculation of Distance**

At this time, the Company does not specify the charges for service based on the calculation of distance. However, if in the future the charges for service are specified based upon the calculation of distance, the following rules will apply:

12.2.1 Distance between two points is measured as airline distance between the Rate Centers of the originating and terminating telephone lines. The Rate Center is set of geographic coordinated. as referenced in National Exchange Carrier Association, Inc. Tariff FCC No. 4, associated with each NPA-NXX combination (where NPA is the area code and NXX is the first three digits of a seven-digit telephone number). Where there is no telephone number associated with an access line on the Company's network (such as dedicated 800 or WATS access line), the Company will apply the Rate Center of the Customer's main billing telephone number.

12.2.2 The airline distance between any two Rate Centers is determined as follows:

- (A) Obtain the "V" (vertical) and "H" (horizontal) coordinates for each Rate Center from the above-referenced NECA tariff.
- (B) Compute the difference between the "V" coordinates of the two rate centers; and the difference between the two "H" coordinates.
- (C) Square each difference obtained in step (B) above.

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INTEREXCHANGE SERVICE

12.2 Application of Rates (Cont'd)

12.2.2 Rates Based Upon Calculation of Distance (Cont'd)

- (D) Add the square of the "V" difference and the square of the "H" difference obtained in step (C).
- (E) Divide the sum of the squares by 10. Round to the next higher whole number if any fraction is obtained.
- (F) Obtain the square root of the whole number result obtained above. Round to the next higher whole number if any fraction is obtained. This is the airline mileage.
- (G) Formula =

$$\sqrt{\frac{(V1 - V2)^2 + (H1 - H2)^2}{10}}$$

12.2.3 Calls Originating and Terminating Within 0 to 16 Mile and 22 Mile Mileage Bands

There will be no long distance toll charges for calls which originate and terminate within a 0 to 16 mile mileage band and the 22 mile mileage band for selected routes.

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INTEREXCHANGE SERVICE

12.3 Minimum Call Completion Rate

A customer can expect a call completion rate (number of calls completed/number of calls attempted) of not less than 99.5% during peak use periods for the Company services.

12.4 Service Offerings

12.4.1 KMC Long Distance Service (LDS)

(A) Description

KMC Long Distance Service (LDS) is a communications service which is available for use by customers twenty-four (24) hours a day. Customers may originate LDS from locations served by the Company, and may terminate in all locations within the State of Arizona.

LDS calls will be billed in 6-second increments with an initial billing period of 6 seconds.

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INTEREXCHANGE SERVICE

12.4 Service Offerings (Cont'd)

12.4.1 KMC Long Distance Service (LDS) (Cont'd)

(A) Description (Cont'd)

The service is offered in two variations depending upon the method the Customer employs to gain access to the Company's network for use of the service:

Switched LDS is offered in Feature Group D (FGD) exchanges where the Customer's local telephone lines are presubscribed by the local exchange company to the Company's LDS service, such that "1+" interLATA calls are automatically routed to the Company's network.

Dedicated LDS is offered to the extent facilities are available in those cases where the Company and the Customer jointly arrange for the establishment of dedicated access facilities connecting the Customer's trunk-compatible PBX or other suitable equipment to the Company's POP. The Customer shall be responsible for all costs and charges associated with the dedicated access facilities.

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INTEREXCHANGE SERVICE**12.4 Service Offerings (Cont'd)****12.4.1 KMC Long Distance Service (LDS) (Cont'd)****(B) Commitment Levels and Term Plans**

LDS is available on a month to month basis or on an optional 1, 2, or 3- year term plan. Discounts off the base rates are available to the Customer according to the commitment level and term plan selected by the Customer. The commitment level is calculated from the monthly total usage generated from the following Company products: shared and dedicated domestic and interstate and intrastate outbound and inbound service, intraLATA, and calling card. Charges such as taxes, late payment fees or other service non-recurring and monthly recurring charges will not be included in the total usage amount calculation.

Should the Customer's actual usage fall below the monthly minimum usage commitment, the Customer is required to pay the Company a fee equal to the difference between the Customer's discounted rate and the higher rate associated with the lower volume.

A Customer who terminates a term plan in the 1st year prior to the term's expiration will be required to pay in one lump sum an amount equaling the selected monthly commitment level times the number of months remaining in the term, plus an amount equal to any promotional credit, or discount, or waiver, if applicable, that was provided to the Customer.

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INTEREXCHANGE SERVICE**12.4 Service Offerings (Cont'd)****12.4.1 KMC Long Distance Service (LDS) (Cont'd)****(B) Commitment Levels and Term Plans (Cont'd)**

A Customer who terminates a term plan in the 2nd or 3rd year prior to the term's expiration will be required to pay 35% an amount equaling the selected monthly commitment level times the number of months remaining in the term, plus an amount equal to any promotional credit, or discount, or waiver, if applicable, that was provided to the Customer.

(C) Discounts

The following discounts on per minute base rates for qualifying usage are based on the monthly commitment level and term plan selected by the Customer. These discounts are applicable to the rates found in Section 13.1.1 of this Tariff.

<u>Term Plan</u>	<u>Discount (per minute)</u>
One Year	\$0.01
Two Years	\$0.02
Three Years	\$0.03

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INTEREXCHANGE SERVICE

12.4 Service Offerings (Cont'd)

12.4.2 KMC Toll Free Service

(A) Description

KMC Toll Free Service is an inbound communications service which permits calls to be completed at the Customer's location without charge to the calling party. Access to the service is gained by dialing a ten (10) digit telephone number (800+ NXX-XXXX) which will terminate at the Customer's location. Calls may originate from any location within the State of Arizona and may terminate at the Customer's location.

Toll Free Service will be billed per call based on the duration of the call. Each call will be billed in 6 second increments with an initial billing period of 6 seconds. Usage discounts apply to aggregate monthly interstate and intrastate usage.

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INTEREXCHANGE SERVICE

12.4 Service Offerings (Cont'd)

12.4.2 KMC Toll Free Service (Cont'd)

(A) Description (Cont'd)

Toll Free Service is offered in two variations depending upon the method the Customer employs to access the Company's network for use of the service:

Switched Toll Free service calls are originated via normal shared use facilities and are terminated via the Customer's local exchange service access line.

Dedicated Toll Free service calls are originated via normal shared use facilities and are terminated via dedicated access facilities connecting the Customer's premises and the Company's POP. This service is offered to the extent facilities are available and where the Company and the Customer jointly arrange for the establishment of dedicated access facilities connecting the Customer's trunk-compatible PBX or other suitable equipment to the Company's POP. The Customer shall be responsible for all costs and charges associated with the dedicated access facilities.

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INTEREXCHANGE SERVICE**12.4 Service Offerings (Cont'd)****12.4.2 KMC Toll Free Service (Cont'd)****(B) Commitment Levels and Term Plans**

Toll Free is available on a month to month basis or on an optional 1, 2, or 3-year term plan. Discounts off the base rates are available to the Customer according to the commitment level and term plan selected by the Customer. The commitment level is calculated from the monthly total usage generated from the following Company products: shared and dedicated domestic and interstate and intrastate outbound and inbound service, intraLATA, and calling card. Charges such as taxes, late payment fees or other service non-recurring and monthly recurring charges will not be included in the total usage amount calculation

Should the Customer's actual usage fall below the monthly minimum usage commitment, the Customer is required to pay the Company a fee equal to the difference between the Customer's discounted rate and the higher rate associated with the lower volume.

A Customer who terminates a term plan in the 1st year prior to the term's expiration will be required to pay in one lump sum an amount equaling the selected monthly commitment level times the number of months remaining in the term, plus an amount equal to any promotional credit, or discount, or waiver, if applicable, that was provided to the Customer.

A Customer who terminates a term plan in the 2nd or 3rd year prior to the term's expiration will be required to pay 35% of an amount equaling the selected monthly commitment level times the number of months remaining in the term, plus an amount equal to any promotional credit, or discount, or waiver, if applicable, that was provided to the Customer.

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INTEREXCHANGE SERVICE**12.4 Service Offerings (Cont'd)****12.4.2 KMC Toll Free Service (Cont'd)****(C) Discounts**

The following discounts on per minute base rates for qualifying usage are based on the monthly commitment level and term plan selected by the Customer. These discounts are applicable to the rates found in Section 13.1.2 of this Tariff.

<u>Term Plan</u>	<u>Discount (per minute)</u>
One Year	\$0.01
Two Years	\$0.02
Three Years	\$0.03

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INTEREXCHANGE SERVICE**12.4 Service Offerings (Cont'd)****12.4.3 Miscellaneous Services****(A) KMC Calling Card Service**

KMC Calling Card Service is provided to Customers for use when away from their established service location. Access to the service is gained by dialing a Company designated 800 access number (800-NXX-XXXX), plus the Customer's/ User's KMC Calling Card authorization number and the called telephone number.

Beyond these standard features, the KMC Calling card includes the following enhanced features: conference calling, KMC Voice Mail access, voice messaging, news and information access and speed dialing. Use of these enhanced features is subject to separate charges. KMC Calling Card calls are billed in full minute increments, with a one minute minimum. This service is offered with Peak and Off-Peak pricing. A description of the additional features are as follows.

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INTEREXCHANGE SERVICE

12.4 Service Offerings (Cont'd)

12.4.3 Miscellaneous Services (Cont'd)

(A) KMC Calling Card Service (Cont'd)

(1) Enhanced Features Charges

Enhanced features are available for use as described below. Enhanced features charges apply in lieu of standard usage charges. Usage charges are billed in six second increments with a one minute minimum.

(a) Conference Calling

Allows the User to establish a conference call by accessing the conference operator. Charges apply per established line and per minute of usage.

(b) Voice Mail Access

Allows the User to access KMC Voice Mail and to place return calls without having to hang-up and initiate a new calling card call.

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INTEREXCHANGE SERVICE

12.4 Service Offerings (Cont'd)

12.4.3 Miscellaneous Services (Cont'd)

(A) KMC Calling Card Service (Cont'd)

(1) Enhanced Features Charges (Cont'd)

(c) Voice Messaging

Allows the User to leave up to a three minute voice recorded message that is stored for future delivery when the called number is busy or no answer.

(d) News and Information

Provides access to news, weather, sports, financial information and other features.

(e) Speed Dialing

Allows the User to access Speed Dialing by programming and storing up to nine frequently dialed numbers.

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INTEREXCHANGE SERVICE12.4 Service Offerings (Cont'd)12.4.3 Miscellaneous Services (Cont'd)(A) KMC Calling Card Service (Cont'd)(2) Rate Periods

Peak and Off-Peak rate periods are as follows:

<u>Non-Holiday Rate Periods</u>	<u>From</u>	<u>To But Not Including</u>	<u>Days</u>
Peak	8:00 a.m.	5:00 p.m.	Mon-Fri
Off-Peak	5:00 p.m.	8:00 a.m.	Mon-Fri
	8:00 a.m.	8:00 a.m.	Sat-Sun
	8:00 a.m.	8:00 a.m.	Holidays

Holidays: On Christmas Day (Dec. 25), New Years Day (Jan. 1), Memorial Day, Independence Day (July 4), Labor Day (first Monday in Sept.) and Thanksgiving Day (fourth Thursday in Nov.) the Off-Peak Period rate applies unless a lower rate would normally apply.

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INTEREXCHANGE SERVICE**12.4 Service Offerings (Cont'd)****12.4.3 Miscellaneous Services (Cont'd)****(B) Bill-to-Calling Card (BCC) Service**

Bill-to-Calling Card Service allows users of touch-tone telephones connected to the Company's LDS services to charge calls to their local exchange company (LEC) calling card. In addition to standard LDS, the BCC charge, as set forth in 13.3.2 applies when users complete calls by entering both the called number and their LEC calling card number without the assistance of an operator. For BCC calls to Directory Assistance, the appropriate charges set forth in 13.3.3 will apply in addition. The Company accepts only LEC calling cards which it can identify as valid. Charges for BCC calls will appear on the user's LEC bill.

(C) Directory Assistance (DA)

Company will connect LDS Service Customers to Directory Assistance (DA) for a fee as set forth in Section 13.3.3. A credit allowance for DA will be provided upon request if the Customer experiences poor transmission quality, is cut-off, receives an incorrect telephone number, or misdials the intended DA number (NPA+ 555-1212).

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INTEREXCHANGE SERVICE**12.4 Service Offerings (Cont'd)****12.4.4 Special Promotions**

The Company may from time to time engage in special promotional service offerings designed to attract new customers or to increase existing subscribers awareness of a particular tariff offering. The Commission will be notified of the starting and ending dates, times, and/or locations of such promotions.

12.4.5 Special Service Arrangements

Customer-specific service arrangements, which may include engineering, installation, construction, facilities, assembly and/or other special services, may be furnished in addition to existing tariff offerings. Rates, terms, and conditions plus any additional regulations, if applicable for the special service arrangements will be developed upon the customer's request. Unless otherwise specified, the regulations for the special service arrangements are in addition to the applicable regulations specified in other sections of this tariff. The necessary tariff revisions will be filed to reflect the special service arrangements.

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INTEREXCHANGE RATES

13.1 KMC Long Distance Service (LDS)

13.1.1 New Service Offering

RESERVED FOR FUTURE USE

<u>Rates and Charges</u>	<u>Initial</u>	<u>Maximum</u>
Outbound Switched		
Outbound Dedicated		
Inbound Switched		
Inbound Dedicated		

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INTEREXCHANGE RATES

13.2 KMC Toll Free Service

13.2.1 New Service Offering

RESERVED FOR FUTURE USE

Rates and Charges

Initial

Maximum

Inbound Switched

Inbound Dedicated

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INTEREXCHANGE RATES**13.2 KMC Toll Free Service (Cont'd)****13.2.2 Recurring and Non-Recurring Rates****RESERVED FOR FUTURE USE**

	<u>Initial</u>	<u>Maximum</u>
Shared charge per 800 number		
Monthly Recurring	N/A	N/A
Non-Recurring	N/A	N/A
Dedicated charge per routing arrangement	N/A	N/A
Monthly Recurring N/A	N/A	
Non-Recurring	N/A	N/A
Advanced features (per feature)		
1 routing feature		N/A
3 routing features		N/A
All routing features		N/A

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INTEREXCHANGE RATES

13.3 Miscellaneous Services

13.3.1 KMC Calling Card Service **RESERVED FOR FUTURE USE**

	<u>Initial</u>	<u>Maximum</u>
(A) <u>Standard Usage Charges</u> (per minute of use)		
(1) Peak/Off-Peak Rate		
(2) Surcharge		
(B) <u>Directory Assistance Calls</u>		
(1) Requested Number Charge		
(2) Call Completion Charge (per minute)		NC
(C) <u>Enhanced Feature Charges</u>		
(1) Conference Calling		
per established line		
per minute of usage		
per line (Day)		
(Weekend)		
(2) Voice Mail Access		
per minute of usage		

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INTEREXCHANGE RATES**13.3 Miscellaneous Services (Cont'd)****13.3.1 KMC Calling Card Service (Cont'd)****(C) Enhanced Feature Charges (Cont'd)**

	<u>Initial</u>	<u>Maximum</u>
(3) <u>Voice Messaging</u> (per minute of usage)		
1 message		
up to 5 messages		
up to 10 messages		
up to 20 messages		
message status	NC	
(4) <u>News and Information</u>		
per minute of usage	N/A	
(5) <u>Speed Dialing</u>	NC	

13.3.2 BCC Service

BCC Charge

13.3.3 Directory Assistance

Per requested number

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INTEREXCHANGE RATES**13.4 Exemptions and Special Rates****13.4.1 Discounts for Hearing Impaired Customers**

A telephone toll message which is communicated using a telecommunications device for the deaf (TDD) by properly certified hearing or speech impaired persons or properly certified business establishments or individuals equipped with TDDs for communicating with hearing or speech impaired persons will receive, upon request, credit on charges for certain intrastate toll calls placed between TDDs. The credit to be given on a subsequent bill for such calls placed between TDDs will be equal to applying the evening rate during business day hours and the night/weekend rate during the evening rate period. Discounts do not apply to surcharges or per call add on charges for operator service when the call is placed by a method that would normally incur the surcharge.

13.4.2 Directory Assistance for Handicapped Persons

There is no charge for Directory Assistance for the first 50 calls in a monthly billing period from handicapped persons. Such persons must contact the Company for credit on their directory assistance calls.

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INTEREXCHANGE RATES

13.4 Exemptions and Special Rates (Cont'd)

13.4.3 Discounts for Telecommunications Relay Service

For intrastate toll calls received from the telecommunications relay service, there will be a 50 percent discount off the applicable rate for a voice non relay call except that where either the calling or called party indicates that either party is both hearing and visually impaired, the call will be discounted 60 percent off the applicable rate for a voice non relay call. The above discounts apply only to time-sensitive elements of a charge for the call and shall not apply to per call charges such as a credit card surcharge.

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Executive Vice President of Business Development
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EXHIBIT H

NETWORK DIAGRAM

KMC DATA LLC., Network

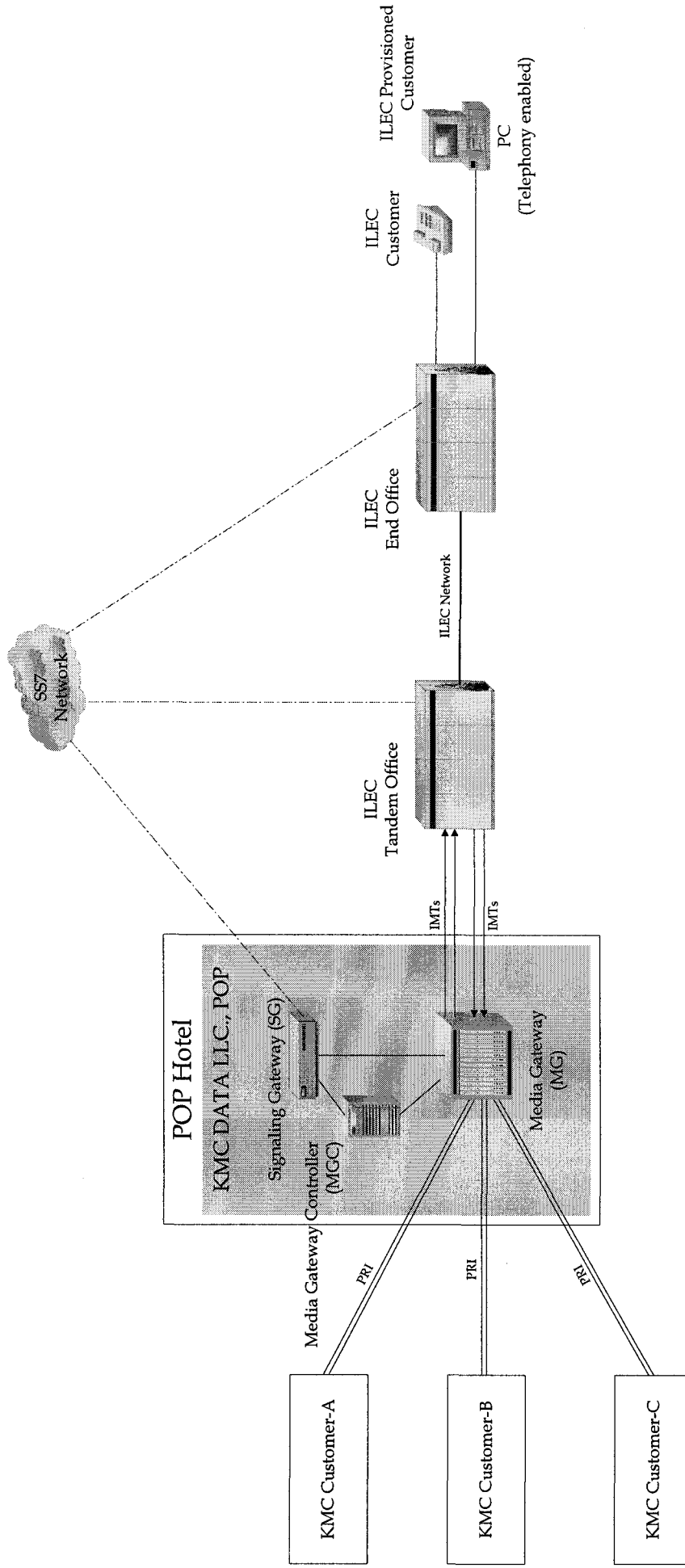


EXHIBIT I

STATEMENT OF FINANCIAL GUARANTEE

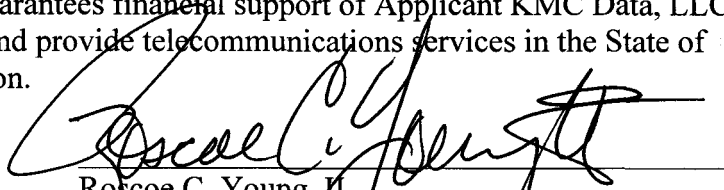
STATEMENT OF FINANCIAL GUARANTEE

Roscoe C. Young, II, Affiant, being duly sworn according to law, deposes and says that:

He is the **President and Chief Operating Officer** of KMC Telecom Holdings, Inc.

That he is authorized to and does make this affidavit for said corporation;

That KMC Telecom Holdings, Inc., guarantees financial support of Applicant KMC Data, LLC, in its endeavor to obtain certification and provide telecommunications services in the State of **Arizona** as described in this Application.



Roscoe C. Young, II
President & Chief Operating Officer
KMC Telecom Holdings, Inc.

[Commonwealth/State] of New Jersey :

: ss.

County of Somerset :

Sworn and subscribed before me this 6th day of March, 2006.



Signature of official administering oath

Mark C. Millard
A Notary Public of New Jersey

My commission expires My Commission Expires May 4, 2005

EXHIBIT J

FINANCIAL QUALIFICATIONS

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KMC TELECOM REPORTS FOURTH QUARTER AND FULL YEAR 2000 RESULTS

KMC Reports Sequential Revenue Growth of 32 Percent for the Fourth Quarter and 225 Percent for the Full Year

For the Fourth Quarter:

- Over 418,000 Total Lines added
- Gross Margins continue to expand, gaining another 5 percentage points
- Adjusted EBITDA deficit narrowed by 28 percent
- Two new Tier III Cities became operational

BEDMINSTER, NJ, February 5, 2001 - KMC Telecom Holdings, Inc. (KMC), a fiber-based integrated communications provider, today reported financial and operational results for the fourth quarter and full year ended December 31, 2000.

Fourth Quarter 2000:

The following table details how KMC performed in the fourth quarter 2000 compared to the fourth quarter 2000 financial guidance provided by KMC on its third quarter earnings conference call:

	Financial Guidance	Fourth Quarter Actual
Revenue	\$70 - \$74 million	\$80.2 million
Gross Margin	25 percent	28 percent
Adjusted EBITDA Deficit	\$21 - \$24 million	\$19.4 million

Fourth quarter 2000 revenue increased 32 percent to \$80.2 million compared to third quarter 2000 revenue of \$60.9 million, and rose over 250 percent compared to fourth quarter 1999 revenue of \$22.0 million. The fourth quarter 2000 represents the fifth consecutive quarter that KMC has posted a sequential quarterly revenue increase of over 30 percent.

Gross margins continued to expand, reaching 28 percent in the fourth quarter 2000 compared to 23 percent in the third quarter 2000. Adjusted EBITDA (EBITDA excluding non-cash stock compensation expense) deficit narrowed by 28 percent from \$27.1 million in the third quarter 2000 to \$19.4 million in the fourth quarter 2000. In addition, two more Tier III cities turned EBITDA positive, for a total of ten cities as of December 31, 2000.

CEO William F. Lenahan said, "We continue to demonstrate our ability to execute against our business plan. Our fourth quarter 2000 operational and financial performance was made possible by significant contributions from both the Tier III and data service businesses which led to increased margins and a significant reduction in EBITDA losses."

KMC's fourth quarter results were driven by the Tier III business and the increasing contribution of KMC's guaranteed revenue contracts in the data services business. In the Tier III business, KMC completed construction on its 37-city business plan with the final two switches becoming active in Johnson City/Kingsport, Tennessee and Rockville/Bethesda/Frederick, Maryland. The data services business continued to build momentum in the fourth quarter with the installation of the first phase of a multi-phase contract. The remaining phases of this contract will be installed in the first half of 2001.

The quality of KMC's revenue mix continued to improve. In the fourth quarter of 2000, KMC had over 90 percent of high quality revenue with less than 10 percent representing access, reciprocal and resale revenue compared with 13 percent in the third quarter 2000.

Total lines (DS-0 equivalents - the combination of access lines and dedicated lines) amounted to

nearly 2.5 million at the end of the fourth quarter 2000, a 22 percent increase over KMC's total at the end of the third quarter 2000, and over 600 percent higher than KMC reported at the end of the fourth quarter 1999. At December 31, 2000, over 99% of total lines were served on KMC's network either by direct connection or unbundled network element (UNE).

Dedicated lines grew 24 percent to 2.0 million lines at the end of the fourth quarter 2000 from 1.6 million lines at the end of the third quarter 2000. This increase was fueled by the installation of ports related to KMC's data services contracts and other large customer installations in Tier III cities. Access lines increased by 30,184 to a total of 265,056 at the end of the fourth quarter 2000, an increase of 13 percent over the prior quarter, and a 133 percent increase over the December 31, 1999 total.

Full Year 2000:

During the year, KMC grew its core Tier III business significantly, while also establishing itself as a nationwide provider of data services. For the full year 2000, KMC increased its customer base by 91 percent and added nearly 2.0 million total lines.

Total revenue for the year 2000 grew to \$209.2 million, a 225 percent increase from the year 1999 amount of \$64.3 million. KMC's focus during the year, which was to increase the quality of the revenue mix and gain benefits from the larger scale of its operations, allowed KMC to post significant gross margin improvement for the year 2000. Adjusted EBITDA was a deficit of \$122.7 million for the year 2000.

Resources and Capital Expenditures:

At December 31, 2000, KMC had \$110.0 million in unrestricted cash and cash equivalents. The undrawn portion of its \$700.0 million amended senior secured credit facility at the end of the fourth quarter was \$81.8 million. KMC is presently in discussions with its senior lenders to modify the amended senior secured credit facility.

KMC's capital expenditures for the fourth quarter 2000 were \$203.2 million, \$28.2 million for the Tier III business and \$175.0 million for the data services business. Gross networks, property and equipment at December 31, 2000 was \$1.1 billion.

Guidance for the first quarter 2001:

Based on initial estimates, KMC currently expects the following financial results for the first quarter 2001:

- Revenue in the range of \$90-\$95 million
- Adjusted EBITDA deficit in the range of \$12 to \$14 million

Other:

As previously announced, KMC filed a Form S-1 in mid-September 2000 with the Securities and Exchange Commission for an initial public offering of common stock. KMC has postponed the offering until market conditions improve. KMC currently expects to proceed with the offering in the second half of 2001. The proceeds from this offering would be used to fund capital expenditures in connection with the expansion of KMC's networks, for working capital and other general corporate purposes, including to fund net losses, and potential strategic acquisitions. This Form S-1 registration statement relating to KMC's securities has not yet become effective. The securities covered thereby may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This press release shall not constitute an offer to sell or the solicitation of an offer to buy these securities. There shall be no such offer or solicitation nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

About KMC Telecom:

KMC Telecom is a fiber-based integrated communications provider offering data, voice and Internet infrastructure services to businesses, governments and institutional end-users, Internet service providers, long distance carriers and wireless service providers. KMC's business has two distinct components: serving communications-intensive customers in markets with populations between 100,000 and 750,000, referred to as Tier III markets, and providing data services on a nationwide basis. For further information, visit www.kmctelecom.com

Certain matters discussed in this release are forward-looking statements that involve risks and uncertainties. These forward-looking statements are based on all information currently available to us and subject to a number of risks, uncertainties and other factors that could cause our actual

results, performance, prospects or opportunities to other materiality from those expressed in, or implied by, these forward-looking statements. These risks, uncertainties and other factors include matters related to: our operations and prospects, our expected financial position, our funding needs and financing sources, the possibility that we may not be able to comply with financial covenants under our amended senior secured credit facility, the possibility that we may not be able to amend that facility, our network construction and development plans, the ability of Tier III markets to profitably support one or more competitive telecommunications companies, regulatory matters, expected competitors in our markets and other risks and uncertainties including those detailed in our filings with the Securities and Exchange Commission. We undertake no duty to update such forward-looking statements.

Investors and Analysts Contact:	Media Contact:
William H. Stewart	Susanne Curry
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KMC Reports Sequential Revenue Growth of 32 Percent For Fourth Quarter 2000 - Page 5

**KMC Telecom Holdings, Inc.
Selected Statistical Data**

	<u>12/31/2000</u>	<u>9/30/2000</u>	<u>6/30/2000</u>	<u>3/31/2000</u>
Tier III markets served	37	35	35	35
Networks				
- Operational switches	37	35	35	35
Access lines				
- Installed	265,056	234,872	197,721	148,439
Dedicated lines (DS-O equivalent basis)				
- Installed	2,019,319	1,630,518	570,271	331,640
Total lines (DS-O equivalents)				
(Combined access lines and dedicated lines)				
- Installed	2,284,375	1,865,390	767,992	480,079
Total buildings connected	9,745	9,085	7,088	5,615
Route miles	2,285	2,178	1,989	1,724
Fiber miles	140,988	134,952	122,376	110,335
Collocations	134	125	124	111
Customers	11,602	9,990	8,513	7,305
Employees	1,255	1,226	1,203	1,158

KMC Reports Sequential Revenue Growth of 32 Percent For Fourth Quarter 2000 - Page 6

KMC Telecom Holdings, Inc.
Unaudited Condensed Consolidated Statement of Operations Data
(In thousands)

	<u>Three Months Ended</u>			
	<u>12/31/2000</u>	<u>9/30/2000</u>	<u>6/30/2000</u>	<u>3/31/2000</u>
Revenue				
On-network (a)	\$ 77,878	\$ 58,408	\$ 36,149	\$ 25,741
Resale	2,292	2,541	2,776	3,410
Total revenue	80,170	60,949	38,925	29,151
 Network operating costs (b)	 57,359	 46,944	 36,483	 28,807
Gross profit	22,811	14,005	2,442	344
<i>Gross margin</i>	<i>28.5%</i>	<i>23.0%</i>	<i>6.3%</i>	<i>1.2%</i>
 Selling, general and administrative (b)	 42,167	 41,058	 39,724	 39,326
Adjusted EBITDA (c)	\$ (19,356)	\$ (27,053)	\$ (37,282)	\$ (38,982)

Other financial data:

Capital expenditures - Tier III Business	\$ 28,156	\$ 75,711	\$ 76,522	\$ 100,292
Capital expenditures - Data Services Business	\$ 175,027	\$ 1,397	\$ 546	\$ -
Capital expenditures - Total Company	\$ 203,183	\$ 77,108	\$ 77,068	\$ 100,292

(a) On-network revenues are revenues earned from services provided on our network, including by direct connection to our switch, unbundled network element or dedicated circuit.

(b) Does not include non-cash charges related to depreciation and amortization and stock option compensation.

(c) Adjusted EBITDA consists of earnings (loss) before cumulative effect of change in accounting principle, net interest, income taxes, depreciation and amortization charges, stock option compensation expense (a non-cash charge) and other expense. Adjusted EBITDA is not calculated under generally accepted accounting principles. Adjusted EBITDA is generally accepted as providing useful information regarding a company's ability to incur and service debt. Adjusted EBITDA should not be considered in isolation or as a substitute for net income, cash flows from continuing operations or other consolidated income or cash flow data prepared in accordance with generally accepted accounting principles or as a measure of a company's profitability or liquidity.

KMC Reports Sequential Revenue Growth of 32 Percent For Fourth Quarter 2000 - Page 7

KMC Telecom Holdings, Inc.
Unaudited Condensed Consolidated Statement of Operations Data
(In thousands)

	<u>Three Months Ended</u> <u>December 31,</u>		<u>Twelve Months Ended</u> <u>December 31,</u>	
	2000	1999	2000	1999
Revenue				
On-network (a)	\$ 77,878	\$ 19,116	\$ 198,177	\$ 44,614
Resale	2,292	2,913	11,018	19,699
Total revenue	80,170	22,029	209,195	64,313
Network operating costs (b)	57,359	25,487	169,593	81,678
Gross profit	22,811	(3,458)	39,602	(17,365)
Gross margin	28.5%	(15.7)%	18.9%	(27.0)%
Selling, general and administrative (b)	42,167	23,736	162,275	84,434
Adjusted EBITDA (c)	\$ (19,356)	\$ (27,194)	\$ (122,673)	\$ (101,799)

Other financial data:

Capital expenditures - Tier III Business	\$ 28,156	\$ 222,236	\$ 280,681	\$ 440,733
Capital expenditures - Data Services Business	\$ 175,027	\$ -	\$ 176,970	\$ -
Capital expenditures - Total Company	\$ 203,183	\$ 222,236	\$ 457,651	\$ 440,733

(a) On-network revenues are revenues earned from services provided on our network, including by direct connection to our switch, unbundled network element or dedicated circuit.

(b) Does not include non-cash charges related to depreciation and amortization and stock option compensation. Certain reclassifications have been made to the 1999 amounts to conform with the 2000 presentation.

(c) Adjusted EBITDA consists of earnings (loss) before cumulative effect of change in accounting principle, net interest, income taxes, depreciation and amortization charges, stock option compensation expense (a non-cash charge) and other expense. Adjusted EBITDA is not calculated under generally accepted accounting principles. Adjusted EBITDA is generally accepted as providing useful information regarding a company's ability to incur and service debt. Adjusted EBITDA should not be considered in isolation or as a substitute for net income, cash flows from continuing operations or other consolidated income or cash flow data prepared in accordance with generally accepted accounting principles or as a measure of a company's profitability or liquidity.

KMC Reports Sequential Revenue Growth of 32 Percent For Fourth Quarter 2000 - Page 8

**KMC Telecom Holdings, Inc.
Unaudited Condensed Consolidated Balance Sheets
(In thousands)**

	<u>December 31, 1999</u>	<u>December 31, 2000</u>
Assets		
Cash & cash equivalents	\$ 85,966	\$ 109,977
Other current assets (a)	65,873	106,172
Total current assets	<u>151,839</u>	<u>216,149</u>
Networks, property & equipment, net	639,324	1,021,684
Other non-current assets	94,877	93,506
Total assets	<u>\$ 886,040</u>	<u>\$ 1,331,339</u>
Liabilities, redeemable & non-redeemable equity (deficiency)		
Total current liabilities	\$ 208,846	\$ 272,311
Notes payable	235,000	728,173
Senior discount notes payable	301,137	340,181
Senior notes payable	275,000	275,000
Total liabilities	<u>1,019,983</u>	<u>1,615,665</u>
Total redeemable equity (b)	<u>250,470</u>	<u>535,145</u>
Total nonredeemable equity (deficiency)	<u>(384,413)</u>	<u>(819,471)</u>
Total liabilities, redeemable & nonredeemable equity (deficiency)	<u>\$ 886,040</u>	<u>\$ 1,331,339</u>

(a) Other current assets at December 31, 2000, consist of restricted investments of \$44.1 million, net accounts receivable of \$47.1 million, and prepaid expenses and other current assets of \$14.9 million.

(b) During July 2000, the Company closed a private equity offering resulting in gross proceeds of \$182.5 million.

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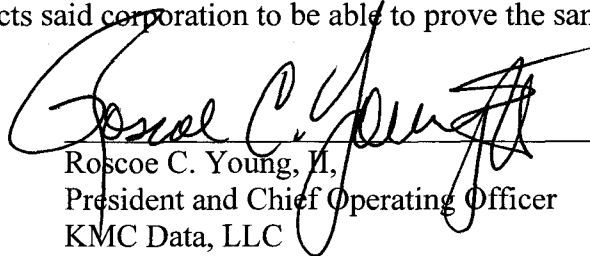
VERIFICATION

Roscoe C. Young, II, Affiant, being duly sworn according to law, deposes and says that:

He is the **President and Chief Operating Officer** of KMC Data, LLC

That he is authorized to and does make this affidavit for said corporation;

That the facts set forth in this Application are true and correct to the best of his knowledge, information, and belief and that he expects said corporation to be able to prove the same at any hearing hereof.



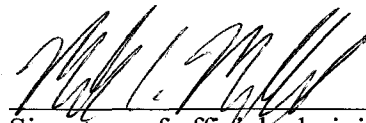
Roscoe C. Young, II,
President and Chief Operating Officer
KMC Data, LLC

[Commonwealth/State] of New Jersey :

: ss.

County of Somerset :

Sworn and subscribed before me this 29th day of January, 20 01.



Signature of official administering oath

Mark C. Millard
A Notary Public of New Jersey
My Commission Expires May 4, 2005

My commission expires _____

KMC TELECOM HOLDINGS INC

Filing Type: 10-Q
Description: Quarterly Report
Filing Date: Nov 14, 2000
Period End: Sep 30, 2000

Primary Exchange: N/A
Ticker: N/A

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the quarterly period ended September 30, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 333-50475

KMC TELECOM HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

22-3545325
(I.R.S. Employer
Identification No.)

1545 ROUTE 206, SUITE 300
BEDMINSTER, NEW JERSEY 07921
(Address, including zip code, of principal executive offices)

(908) 470-2100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate the number of shares outstanding of each of the issuer's classes
of common stock, as of the latest practicable date.

CLASS

Common Stock, par value \$0.01
per share.

OUTSTANDING

861,145 shares,
as of November 8, 2000

KMC TELECOM HOLDINGS, INC.

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PART I - FINANCIAL INFORMATION
KMC TELECOM HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	DECEMBER 31, 1999	SEPTEMBER 30, 2000
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$85,966	\$128,520
Restricted investments.....	37,125	37,125
Accounts receivable, net of allowance for doubtful accounts of \$5,551 and \$7,665 in 1999 and 2000, respectively.....	27,373	48,733
Prepaid expenses and other current assets.....	1,375	176,865

Total current assets.....	151,839	391,243
Long term restricted investments.....	51,446	81,490
Networks, property and equipment, net.....	639,324	842,861
Intangible assets, net.....	3,602	4,369
Deferred financing costs, net.....	38,816	42,248
Other assets.....	1,013	1,569
	\$886,040	\$ 1,363,780
	=====	=====
LIABILITIES, REDEEMABLE AND NONREDEEMABLE		
EQUITY (DEFICIENCY)		
Current liabilities:		
Accounts payable.....	\$167,490	\$233,587
Accrued expenses.....	37,047	92,003
Deferred revenue.....	4,309	19,101
Total current liabilities.....	208,846	344,691
Notes payable.....	235,000	616,121
Senior discount notes payable.....	301,137	329,933
Senior notes payable.....	275,000	275,000
Total liabilities.....	1,019,983	1,565,745
Commitments and contingencies		
Redeemable equity:		
Senior redeemable, exchangeable, PIK preferred stock, par value \$.01 per share; authorized:		
630 shares in 1999 and 2000; shares issued and outstanding:		
Series E, 65 shares in 1999 and 72 shares in 2000		
(\$72,312 liquidation preference).....	50,770	59,031
Series F, 44 shares in 1999 and 46 shares in 2000		
(\$46,178 liquidation preference).....	41,370	45,308
Redeemable cumulative convertible preferred stock, par value \$.01 per share; 499 shares authorized; shares issued and outstanding:		
Series A, 124 shares in 1999 and 2000 (\$12,380 liquidation preference)	71,349	103,032
Series C, 175 shares in 1999 and 2000 (\$17,500 liquidation preference)	40,301	68,263
Redeemable cumulative convertible preferred stock, par value \$.01 per share; 2,500 shares authorized; shares issued and outstanding:		
Series G-1, -0- shares in 1999, 59 shares in 2000 (\$19,900 liquidation preference).....	-	19,395
Series G-2, -0- shares in 1999, 481 shares in 2000 (\$162,600 liquidation preference)	-	158,471
Redeemable common stock, 224 shares issued and outstanding.....	33,755	43,657
Redeemable common stock warrants.....	12,925	16,039
Total redeemable equity.....	250,470	513,196
Nonredeemable equity (deficiency):		
Common stock, par value \$.01 per share; 3,000 shares authorized, 629 shares and 637 shares issued and outstanding in 1999 and 2000, respectively.....		
	6	6
Unearned compensation.....	(9,163)	(23,113)
Accumulated deficit.....	(375,256)	(692,054)
Total nonredeemable equity (deficiency).....	(384,413)	(715,161)
	\$886,040	\$ 1,363,780
	=====	=====

See accompanying notes.

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KMC TELECOM HOLDINGS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

THREE MONTHS ENDED
SEPTEMBER 30,

NINE MONTHS ENDED
SEPTEMBER 30,

	1999	2000	1999	2000
Revenue.....	\$ 15,572	\$ 60,949	\$ 42,284	\$ 129,025
Operating expenses:				
Network operating costs:				
Non-cash stock compensation.....	(557)	482	1,059	2,335
Other network operating costs.....	23,631	46,944	56,191	112,234
Selling, general and administrative:				
Non-cash stock compensation.....	(6,404)	6,402	12,181	27,221
Other selling, general and administrative costs	22,479	41,058	60,698	120,108
Depreciation and amortization.....	7,593	20,431	19,230	51,549
Total operating expenses.....	46,742	115,317	149,359	313,447
Loss from operations.....	(31,170)	(54,368)	(107,075)	(184,422)
Other expense.....	-	-	(4,297)	-
Interest income.....	3,980	3,782	7,035	8,290
Interest expense.....	(21,834)	(36,073)	(47,848)	(94,473)
Net loss before cumulative effect of change in accounting principle.....	(49,024)	(86,659)	(152,185)	(270,605)
Cumulative effect of change in accounting principle.....	-	-	-	(1,705)
Net loss.....	(49,024)	(86,659)	(152,185)	(272,310)
Dividends and accretion on redeemable preferred stock..	1,330	(13,229)	(42,085)	(72,210)
Net loss applicable to common shareholders.....	\$ (47,694)	\$ (99,888)	\$ (194,270)	\$ (344,520)
Net loss per common share before cumulative effect of change in accounting principle.....	\$ (55.93)	\$ (116.06)	\$ (228.20)	\$ (400.52)
Cumulative effect of change in accounting principle....	-	-	-	(1.99)
Net loss per common share.....	\$ (55.93)	\$ (116.06)	\$ (228.20)	\$ (402.51)
Weighted average number of common shares outstanding...	852,676	860,639	851,321	855,932
Proforma amounts assuming the change in accounting principle was applied retroactively:				
Net loss applicable to common shareholders.....	\$ (48,226)	\$ (99,888)	\$ (195,421)	\$ (342,815)
Net loss per common share.....	\$ (56.56)	\$ (116.06)	\$ (229.55)	\$ (400.52)

See accompanying notes.

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KMC TELECOM HOLDINGS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30,	
	1999	2000
OPERATING ACTIVITIES		
Net loss	\$ (152,185)	\$ (272,310)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization.....	19,230	51,549
Non-cash interest expense.....	40,174	41,368
Non-cash stock option compensation expense.....	13,240	29,556
Changes in assets and liabilities:		
Accounts receivable.....	(16,271)	(21,360)
Prepaid expenses and other current assets.....	239	(7,154)
Other assets.....	1,065	(30,680)
Accounts payable.....	14,707	(18,113)
Accrued expenses.....	10,837	34,228
Deferred revenue.....	1,748	14,792
Net cash used in operating activities.....	(67,216)	(178,124)
INVESTING ACTIVITIES		
Construction of networks and purchases of equipment.....	(216,508)	(328,678)
Acquisitions of franchises, authorizations and related assets.....	(1,221)	(1,239)
Purchases of investments, net.....	(47,080)	-

Net cash used in investing activities.....	(264,809)	(329,917)

FINANCING ACTIVITIES		
Proceeds from issuance of preferred stock and related warrants, net of issuance costs.....	91,235	177,500
Proceeds from exercise of stock options.....	333	562
Proceeds from issuance of senior notes, net of issuance costs and purchase of portfolio of restricted investments.....	159,942	-
Repurchase and retirement of Series F preferred stock.....	-	(3,329)
Proceeds from credit facilities, net of issuance costs.....	80,541	375,862

Net cash provided by financing activities.....	332,051	550,595

Net increase (decrease) in cash and cash equivalents.....	26	42,554
Cash and cash equivalents, beginning of period.....	21,181	85,966

Cash and cash equivalents, end of period.....	\$ 21,207	\$ 128,520
=====		
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest, net of amounts capitalized.....	\$ 5,751	\$ 43,010
=====		

See accompanying notes.

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KMC TELECOM HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2000

1. BASIS OF PRESENTATION AND ORGANIZATION

KMC Telecom Holdings, Inc. and its subsidiaries are collectively referred to herein as the Company. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company is a fiber-based integrated communications provider providing data and voice services to its customers, principally business, government and institutional end-users, as well as Internet service providers, long distance companies and wireless service providers, primarily in the South, Southeast, Midwest and Mid-Atlantic United States.

The unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting. Accordingly, they do not include certain information and note disclosures required by generally accepted accounting principles for annual financial reporting and should be read in conjunction with the financial statements and notes thereto of KMC Telecom Holdings, Inc. as of and for the year ended December 31, 1999.

The unaudited interim financial statements reflect all adjustments (consisting only of normal recurring adjustments) which management considers necessary for a fair presentation of the results of operations for these periods. The results of operations for the interim periods are not necessarily indicative of the results for the full year.

The balance sheet of KMC Telecom Holdings, Inc. at December 31, 1999 was derived from the audited consolidated balance sheet at that date.

Certain reclassifications have been made to the 1999 unaudited condensed consolidated financial statements to conform with the 2000 presentation.

2. ACCOUNTING CHANGE

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), REVENUE RECOGNITION IN FINANCIAL STATEMENTS. SAB 101 provides additional guidance in applying generally accepted accounting principles to revenue recognition in financial statements. Through December 31, 1999, the Company recognized installation revenue upon completion of the installation. Effective January 1, 2000, in accordance with the provisions of SAB 101, the Company is recognizing installation revenue over the average contract period. The cumulative effect of this change in accounting principle resulted in a charge of approximately \$1.7 million which was recorded in the quarter ended March 31, 2000. For the nine months ended September 30, 2000, the net effect of adopting this change in accounting principle was a deferral of the recognition of \$3.5 million of revenue, which increased net loss for the period by \$4.10 per share. Revenue for the nine months ended September 30, 2000 includes \$1.6 million of revenues that, prior to the accounting change, had been recognized through December 31, 1999.

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3. NETWORKS, PROPERTY AND EQUIPMENT

Networks and equipment are comprised of the following:

	DECEMBER 31, 1999	SEPTEMBER 30, 2000
	-----	-----
	(IN THOUSANDS)	
Fiber optic systems.....	\$ 164,985	\$ 242,454
Telecommunications equipment.....	421,718	531,981
Furniture and fixtures.....	21,397	26,832
Leasehold improvements.....	1,811	2,344
Construction-in-progress.....	66,380	127,149
	-----	-----
	676,291	930,760
Less accumulated depreciation.....	(36,967)	(87,899)
	-----	-----
	\$ 639,324	\$ 842,861
	=====	=====

Costs capitalized during the development of the Company's networks include amounts incurred related to network engineering, design and construction and capitalized interest. Capitalized interest related to the construction of the networks for the nine months ended September 30, 1999 and 2000 amounted to \$3.5 million and \$10.1 million, respectively.

4. INTANGIBLE ASSETS

Intangible assets are comprised of the following:

	DECEMBER 31, 1999	SEPTEMBER 30, 2000
	-----	-----
	(IN THOUSANDS)	
Franchise costs.....	\$ 2,015	\$ 2,807
Authorizations and rights-of-way.....	2,052	2,565
Building access agreements and other costs....	1,038	972
	-----	-----
	5,105	6,344
Less accumulated amortization.....	(1,503)	(1,975)
	-----	-----
	\$ 3,602	\$ 4,369

=====

5. ACCRUED EXPENSES

Accrued expenses are comprised of the following:

	DECEMBER 31, 1999	SEPTEMBER 30, 2000
	-----	-----
	(IN THOUSANDS)	
Accrued compensation.....	\$ 11,423	\$ 21,101
Accrued costs related to financing activities...	7,316	11,498
Accrued interest payable.....	8,544	27,396
Accrued telecommunications costs.....	3,794	8,094
Other accrued expenses.....	5,970	23,914
	-----	-----
	\$ 37,047	\$ 92,003
	=====	=====

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6. SENIOR SECURED CREDIT FACILITIES

AMENDED SENIOR SECURED CREDIT FACILITY

During the quarter ended March 31, 2000, our subsidiaries, KMC Telecom, Inc., KMC Telecom II, Inc., KMC Telecom of Virginia, Inc. and KMC Telecom III, Inc. (collectively, the "Borrowers"), amended, restated and combined the Senior Secured Credit Facility and the Lucent Facility, into a single facility by entering into a \$700 million Loan and Security Agreement (the "Amended Senior Secured Credit Facility") with a group of lenders led by Newcourt Commercial Finance Corporation, GE Capital Corporation, Canadian Imperial Bank of Commerce, First Union National Bank and Lucent Technologies Inc. (collectively, the "Lenders").

The Amended Senior Secured Credit Facility includes a \$175 million reducing revolver facility (the "Revolver"), a \$75 million term loan (the "Term Loan") and a \$450 million term loan facility (the "Lucent Term Loan"). At September 30, 2000, the outstanding loan balances on the Revolver, the Term Loan and the Lucent Term Loan, were approximately \$165 million, \$75 million, and \$341 million, respectively.

The Revolver will mature on April 1, 2007. Proceeds from the Revolver can be used to finance the purchase of certain equipment, transaction costs and, upon attainment of certain financial conditions, for working capital and other general corporate purposes. The aggregate commitment of the Lenders under the Revolver will be reduced on each quarterly payment date beginning April 1, 2003. The initial quarterly commitment reduction is 5.0%, reducing to 3.75% on July 1, 2003, then increasing to 6.25% on July 1, 2004, and further increasing to 7.50% on July 1, 2006. Commencing with the fiscal year ending December 31, 2001, the aggregate Revolver commitment will be further reduced by an amount equal to 50% of excess operating cash flows (as defined in the Amended Senior Secured Credit Facility) for the prior fiscal year until the Borrowers achieve certain financial conditions. The Borrowers must pay an annual commitment fee on the unused portion of the Revolver ranging from .75% to 1.25%.

The Term Loan is payable in twenty consecutive quarterly installments of \$188,000 beginning on April 1, 2002 and two final installments of \$35.6 million each on April 1, 2007 and July 1, 2007. Proceeds from the Term Loan can be used to finance the purchase of certain equipment, transaction costs, working capital and other general corporate purposes.

The Lucent Term Loan provides for an aggregate commitment of up to \$450 million. Proceeds from the Lucent Term Loan can be used to purchase Lucent products or to reimburse the Borrowers for Lucent products previously purchased with cash or other sources of liquidity. The Lucent Term Loan will mature on July 1, 2007 and requires quarterly principal payments beginning on July 1, 2003 of 5%. The principal payment decreases to 3.75% per quarter beginning on October 1, 2003, increases to 6.25% on October 1, 2004 and further increases to 7.50% on October 1, 2006. An annual commitment fee of 1.50% is payable for any unused portion of the Lucent Term Loan.

Borrowings under the Amended Senior Secured Credit Facility will bear interest payable, at the Borrowers' option, at either (a) the "Applicable Base Rate Margin" (which generally ranges from 2.00% to 3.25%) plus the greater of (i) the administrative agent's prime rate or (ii) the overnight federal funds rate plus .5% or (b) the "Applicable LIBOR Margin" (which generally ranges from 3.00% to 4.25%) plus LIBOR, as defined. "Applicable Base Rate Margin" interest is payable quarterly while "Applicable LIBOR Margin" interest is payable at the end of each applicable interest period or at least every three months. Under the Amended Senior Secured Credit Facility the Borrowers were being charged a weighted average interest rate of 11.87% at September 30, 2000. If a payment default were to occur, the interest rate will be increased by four percentage points. If any other event of default were to occur, the interest rate will be increased by two percentage points.

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KMC Holdings has unconditionally guaranteed the repayment of the Amended Senior Secured Credit Facility when such repayment is due, whether at maturity, upon acceleration, or otherwise. KMC Holdings has pledged the shares of each of the Borrowers to the Lenders to collateralize its obligations under the guaranty. In addition, the Borrowers have each pledged all of their assets to the Lenders.

The amended senior secured credit facility contains a number of affirmative and negative covenants, one of which requires us to make additional cash capital contributions to our subsidiaries which are the borrowers thereunder of at least \$35 million prior to August 31, 2001. The original covenant required \$185 million in cash capital contributions by April 1, 2001. However, because we contributed \$150 million of the proceeds of our Series G private equity financing toward fulfilling this requirement, the lenders amended this covenant by extending the due date on the remaining \$35 million of cash capital contributions to August 31, 2001. Because the entire \$185 million cash capital contribution was not made by July 31, 2000, however, the applicable interest rate associated with the facility has increased by 100 basis points until the remaining \$35 million amount is contributed. Additional affirmative and negative covenants include, among others, covenants restricting the ability of the Borrowers to consolidate or merge with any person, sell or lease assets not in the ordinary course of business, sell or enter into long term leases of dark fiber, redeem stock, pay dividends or make any other payments (including payments of principal or interest on loans) to KMC Holdings, create subsidiaries, transfer any permits or licenses, or incur additional indebtedness or act as guarantor for the debt of any person, subject to certain conditions.

The Borrowers are required to comply with certain financial tests and maintain certain financial ratios, including, among others, a ratio of total debt to contributed capital, certain minimum revenues, maximum EBITDA losses and minimum EBITDA, maximum capital expenditures and minimum access lines, a maximum total leverage ratio, a minimum debt service coverage ratio, a minimum fixed charge coverage ratio and a maximum consolidated leverage ratio. The covenants become more restrictive upon the earlier of (i) March 31, 2002 and (ii) after the Borrowers achieve positive EBITDA on a combined basis for two consecutive fiscal quarters and a total leverage ratio (as defined) equal to or less than 9 to 1.

Failure to satisfy any of the financial covenants will constitute an

event of default under the Amended Senior Secured Credit Facility permitting the Lenders, after notice, to terminate the commitment and/or accelerate payment of outstanding indebtedness thereunder. The Amended Senior Secured Credit Facility also includes other customary events of default, including, without limitation, a cross-default to other material indebtedness, material undischarged judgments, bankruptcy, loss of a material franchise or material license, breach of representations and warranties, a material adverse change, and the occurrence of a change of control.

TELECOM IV SENIOR SECURED TERM LOAN

During the quarter ended June 30, 2000, our subsidiary, KMC Telecom, IV, Inc., closed a new senior secured term loan (the "Telecom IV Loan") from Lucent Technologies Inc. The Telecom IV Loan initially provides up to \$35 million of principal borrowings, plus accrued interest, until certain conditions are met and then provides for additional principal borrowings up to a ceiling of \$50 million, plus accrued interest. Proceeds from the Telecom IV Loan can be used to purchase or install Lucent products and will be used to purchase equipment for future expansion. The Telecom IV Loan will mature on October 1, 2007 and requires quarterly principal payments beginning on January 1, 2003 of 2.5% of the outstanding principal balance, with the percentage increasing to 5% on January 1, 2005, 6.25% on October 1, 2005, and 7.5% on October 1, 2006, with the balance due on October 1, 2007. As of September 30, 2000, the outstanding principal loan balance on this term loan was approximately \$35 million.

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Borrowings under the Telecom IV Loan will bear interest payable, at the Company's option, at either (a) the Applicable Base Rate Margin (which generally ranges from 2.25% to 3.50% based on the Company's total debt to total contributed capital ratio) plus the greater of (i) the administrative agent's prime rate or (ii) the overnight federal funds rate plus .5% or (b) the LIBOR Rate plus the Applicable Margin (which generally ranges from 3.25% to 4.50% based on the Company's debt to contributed capital ratio). "Applicable Base Rate Margin" interest is payable quarterly while "Applicable LIBOR Margin" interest is payable at the end of each applicable interest period, or at least every three months. Under the Telecom IV Loan, the Company was being charged a weighted average interest rate of 11.31% at September 30, 2000. There are no financial covenants on this loan. However, there are affirmative and negative covenants that, generally, are no more restrictive to the Company than the Company's other debt agreements. If any events of default were to occur, the interest rate would increase by two percentage points.

7. SERVICE REVENUES

The Company provides on-network services and resells switched services previously purchased from the incumbent local exchange carrier. On-network services include services provided through direct connections to our own networks, services provided by means of unbundled network elements leased from the incumbent local exchange carrier and dedicated circuits. The Company's service revenues consist of the following:

	THREE MONTHS ENDED SEPTEMBER 30, 1999 2000		NINE MONTHS ENDED SEPTEMBER 30, 1999 2000	
	(in thousands)		(in thousands)	
On-network.....	\$ 10,778	\$ 58,408	\$ 25,498	\$ 120,298
Resale.....	4,794	2,541	16,786	8,727
Total.....	\$ 15,572	\$ 60,949	\$ 42,284	\$ 129,025

8. COMMITMENTS AND CONTINGENCIES

PURCHASE COMMITMENTS

As of September 30, 2000, the Company has outstanding commitments aggregating approximately \$96.5 million related to purchases of telecommunications equipment and fiber optic cable and its obligations under its agreements with certain suppliers.

REDEMPTION RIGHTS

Pursuant to a stockholders agreement, certain of the Company's stockholders and warrant holders have "put rights" entitling them to have the Company repurchase their preferred and common shares and redeemable common stock warrants for the fair value of such securities if no Liquidity Event (defined as (i) an initial public offering with gross proceeds of at least \$40 million, (ii) the sale of substantially all of the stock or assets of the Company or (iii) the merger or consolidation of the Company with one or more other corporations) has taken place by the later of (x) October 22, 2003 or (y) 90 days after the final maturity date of the Senior Discount Notes. The restrictive covenants of the Senior Discount Notes limit the Company's ability to repurchase such securities. All of the securities subject to such "put rights" are presented as redeemable equity in the accompanying balance sheets.

The redeemable preferred stock, redeemable common stock and redeemable common stock warrants, which are subject to the stockholders agreement, are being accreted up to their fair market values from their respective issuance dates to their earliest potential redemption date (October 22, 2003). At

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September 30, 2000, the aggregate redemption value of the redeemable equity was approximately \$580 million, reflecting per share redemption amounts of \$1,454 for the Series A Preferred Stock, \$711 for the Series C Preferred Stock, \$338 for the Series G Preferred Stock and \$300 for the redeemable common stock and redeemable common stock warrants.

9. NET LOSS PER COMMON SHARE

The following table sets forth the computation of net loss per common share-basic (in thousands, except share and per share amounts):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	2000	1999	2000
Numerator:				
Net loss before cumulative effect of change in accounting	\$ (49,024)	\$ (86,659)	\$ (152,185)	\$ (270,605)
Cumulative effect of change in accounting principle.....	-	-	-	(1,705)
Net loss.....	(49,024)	(86,659)	(152,185)	(272,310)
Dividends and accretion on redeemable preferred stock.....	1,330	(13,229)	(42,085)	(72,210)
Numerator for net loss applicable to common shareholders..	\$ (47,694)	\$ (99,888)	\$ (194,270)	\$ (344,520)
Denominator:				
Denominator for net loss per common share-weighted average number of common shares outstanding.....	852,676	860,639	851,321	855,932
Net loss per common share before cumulative effect of change in accounting principle - basic.....	\$ (55.93)	\$ (116.06)	\$ (228.20)	\$ (400.52)
Cumulative effect of change in accounting principle.....	-	-	-	(1.99)
Net loss per common share - basic.....	\$ (55.93)	\$ (116.06)	\$ (228.20)	\$ (402.51)

Options and warrants to purchase an aggregate of 483,273 and 666,730 shares of common stock were outstanding as of September 30, 1999 and 2000, respectively, but a computation of diluted net loss per common share has not been presented, as the effect would be anti-dilutive.

10. SIGNIFICANT CONTRACTS AND CUSTOMERS

In March 2000, the Company entered into an agreement with Qwest Communications Corporation ("Qwest"), pursuant to which (i) the Company took delivery of approximately \$134 million of Internet infrastructure equipment from Qwest and (ii) the Company agreed to install and maintain this equipment, in over 90 cities throughout the United States, principally to handle Internet service provider traffic on behalf of Qwest. As amended, the services agreement is for a term of 51 months, commencing November 2000 and expiring January 2005. The Company entered into a lease financing transaction in June 2000 to fund the entire cost of this equipment.

In June 2000, the Company entered into a second agreement with Qwest, pursuant to which (i) the Company took delivery of approximately \$168 million of Internet infrastructure equipment from Qwest and (ii) the Company agreed to install and maintain this equipment throughout the United States, principally to handle Internet service provider traffic on behalf of Qwest. The second services agreement commences in November 2000 and expires in July 2005. The Company entered into a financing transaction to fund the cost of this equipment in November 2000 (see Note 15).

Contracts with Qwest accounted for approximately 30% of the Company's total revenue during the nine months ended September 30, 2000. A significant portion of the Qwest business was generated from long term guaranteed revenue contracts. For the nine months ended September 30, 1999, no one customer accounted for more than 10% of revenue.

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11. INTEREST RATE SWAP AGREEMENTS

AMENDED AND RESTATED INTEREST RATE SWAP AGREEMENT

In April 2000, the Company entered into an amended and restated interest rate swap agreement (the "Amended Swap") with a commercial bank to reduce the impact of changes in interest rates on its outstanding variable rate debt. The Amended Swap effectively fixes the Company's interest rate on \$325 million of outstanding variable rate borrowings under the Amended Senior Secured Credit Facility (see Note 6) through April 2003 after which time the Amended Swap is reduced to \$225 million through January 2004 and then finally reduced to \$100 million until termination of the Amended Swap in April 2005. The Company is exposed to credit loss in the event of nonperformance by the other party to the interest rate swap agreement. However, the Company does not anticipate nonperformance by the counterparty.

JUNE 2000 SWAP

In June 2000, the Company entered into an interest rate swap agreement (the "June 2000 Swap") with a commercial bank to reduce the impact of changes in interest rates on its outstanding variable rate debt. The June 2000 Swap effectively fixes the Company's interest rate on an additional \$90 million of its long-term debt for a period of 5 years. The Company is exposed to credit loss in the event of nonperformance by the other party to the interest rate swap agreement. However, the Company does not anticipate nonperformance by the counterparty.

12. BELL SOUTH RECIPROCAL COMPENSATION SETTLEMENT

In May 2000, the Company reached a resolution of its claims for payment of certain reciprocal compensation charges, previously disputed by BellSouth Corporation. Under the agreement, BellSouth made a one-time payment that resolved all amounts billed through March 31, 2000. In addition, BellSouth and the Company agreed to future rates for reciprocal compensation, setting new contractual terms for payment. Under the terms of the agreement, the rates for reciprocal compensation will be reduced, and will apply to all local traffic, including ISP-bound traffic, thereby eliminating the principal area of dispute between the parties. The reduction will be phased in over a three-year period beginning with a rate of \$.002 per minute of use in year 2000, \$.00175 per minute of use for 2001 and \$.0015 per minute of use for 2002.

13. EQUITY TRANSACTIONS

SERIES G PREFERRED EQUITY

In July 2000, the Company issued 58,881 and 481,108 shares of Series G-1 Voting and G-2 Non-Voting Convertible Preferred Stock (the "Series G Preferred Stock"), respectively, to Lucent Technologies, Dresdner Kleinwort Benson Private Equity Partners, CIT Lending Services, Nassau Capital Partners and Harold N. Kamine, its Chairman of the Board, for aggregate gross proceeds of \$182.5 million. The Series G Preferred Stock has a liquidation preference of \$337.97 per share and an annual cumulative dividend equal to 7% of the liquidation preference. Payment of the unpaid dividends is triggered by (i) an initial public offering in which the Company receives aggregate gross proceeds of at least \$80 million or (ii) a merger, consolidation or sale of substantially all assets.

Each share of Series G Preferred Stock is convertible into a number of shares of common stock equal to the liquidation preference of each share divided by the conversion price then in effect. Initially, the conversion price is \$337.97. However, this price is adjustable, subject to certain exceptions, upon the occurrence of certain events including (i) the issuance or sale of common

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stock for a consideration per share less than the conversion price, (ii) the issuance of rights or options to acquire common stock or convertible securities with an exercise price less than the conversion price and (iii) the issuance or sale of other convertible securities with a conversion or exchange price lower than the conversion price. The Series G Preferred Stock will be automatically converted into common stock upon (i) a Qualified Public Offering, defined as sale of common stock pursuant to a registration statement in which the Company receives aggregate gross proceeds of at least \$80 million, provided that the per share price at which such shares are sold in such offering is not less than the liquidation preference then in effect, or (ii) the election of holders of at least two-thirds of the outstanding shares of Series G Preferred Stock.

The Series G Preferred Stock ranks senior to the common stock, Series A Convertible Preferred Stock and Series C Convertible Preferred Stock, on a parity with the Series F Senior Redeemable, Exchangeable, PIK Preferred Stock and junior to the Series E Senior Redeemable, Exchangeable, PIK Preferred Stock. The Series G-1 shareholders are entitled to vote on all matters before the common holders, as a single class with the common, on an as if converted basis.

Subject to certain limitations and conditions, at the request of the holders of at least two-thirds of the Series G Preferred Stock, the Company may be required to redeem the Series G Preferred Stock upon (i) a change of control or sale of the Company, or (ii) August 15, 2009.

REPURCHASE AND RETIREMENT OF SERIES F PREFERRED STOCK

In September 2000, the Company repurchased and retired 2,965 shares of

Series F preferred stock at 110% of its liquidation preference plus accrued and unpaid dividends for approximately \$3.3 million in accordance with the provisions of the certificate of designation applicable to the Series F preferred stock.

14. INITIAL PUBLIC OFFERING FILING

On September 19, 2000, the Company filed a Form S-1 registration statement with the Securities and Exchange Commission covering an initial public offering of the Company's common stock. As of the date hereof, the Form S-1 has not become effective and the Company's equity securities are not publicly traded.

15. SUBSEQUENT EVENTS

QWEST INTERNET INFRASTRUCTURE EQUIPMENT FINANCING

In November 2000, our subsidiary, KMC Telecom Funding Corporation, entered into an agreement with Dresdner Kleinwort Benson North American Leasing, Inc. to finance the \$168 million of Internet infrastructure equipment purchased from Qwest in June 2000 (See Note 10). The Loan will be paid back over a term of 48 months at a rate of 200 basis points above LIBOR through October 15, 2001 and 600 basis points over LIBOR thereafter.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This form 10-Q contains forward-looking statements. These statements reflect our current estimates, expectations and projections about our future results, performance, prospects and opportunities. In some cases, you can identify these statements by forward-looking words such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "should", "will", "would" and similar expressions. These forward-looking statements are based on all information currently available to us and subject to a number of risks, uncertainties and other factors that could cause our actual results, performance, prospects or opportunities to differ materially from these expressed in, or implied by, these forward-looking statements. These risks, uncertainties and other factors include matters related to:

- o our operations and prospects,
- o our expected financial position,
- o our funding needs and financing sources,
- o the possibility that changes in financial performance may affect our compliance with financial covenants under our amended senior secured credit facility,
- o our network construction and development plans,
- o the ability of tier iii markets to profitably support one or more competitive telecommunications companies,
- o regulatory matters, and
- o expected competitors in our markets.

All subsequent written and oral forward-looking statements by or attributable to us or persons acting on our behalf are expressly qualified in their entirety by these factors. Except as otherwise required to be disclosed in periodic reports required to be filed by public companies with the securities and exchange commission pursuant to the commission's rules, we have no duty to update these statements.

OVERVIEW

We are a rapidly growing fiber-based integrated communications provider

offering data, voice and Internet infrastructure services. We offer these services to businesses, governments and institutional end-users, Internet service providers, long distance carriers and wireless service providers. Our business has two distinct components: serving communications-intensive customers in Tier III markets, and providing data services on a nationwide basis.

We provide a full suite of broadband communications services in 35 Tier III markets, which we define as markets with a population between 100,000 and 750,000. We own and operate robust fiber-based networks and Lucent switching equipment in all of our Tier III markets, which are predominantly located in the South, Southeast, Midwest and Mid-Atlantic United States. We will continue to expand in Tier III markets because we believe that these markets have attractive growth attributes and are typically less competitive than larger markets. Our customers in these markets include: AT&T, Boeing, City of Augusta, Columbia Hospital, NASA, Pillsbury, State of Wisconsin, Texas A&M University and Wal-Mart.

We also provide nationwide data services under long-term guaranteed revenue contracts with Qwest and Broadwing. Under these contracts, we provide local Internet access infrastructure and other enhanced data services. Currently, we have contracts representing approximately \$250 million in annualized revenues in approximately 140 markets. We expect these markets to be

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operational by the first half of 2001. The Internet infrastructure we are deploying includes technologically advanced platforms from Cisco and Nortel, which we believe will result in a cost-effective and technologically superior solution for our customers.

TIER III MARKETS. We have installed fiber-based SONET networks, or self-healing synchronous optical networks, using a Lucent 5ESS(R) switch in each of our 35 operational markets, and are currently constructing networks in two additional Tier III markets using a similar architecture. Our fiber optic networks are initially designed and built to reach approximately 80% of the business access lines in each of our markets, typically requiring a local fiber loop of about 30 to 40 miles.

As our switches have become operational, our operating margins have improved meaningfully. Our operating margins have also improved due to increased on-network revenues relative to resale revenues. On-network revenues are revenues earned from services provided on our network, including by direct connection to our switch, unbundled network element or dedicated circuit. Resale revenues are generated when traffic is carried completely on the incumbent local exchange carriers' facilities. Resale revenues have declined from approximately 56% of our revenues during the first quarter of 1999 to approximately 4% of our total revenues during the third quarter of 2000.

NATIONWIDE DATA PLATFORM. We currently provide Internet access infrastructure for Qwest and Broadwing. We provide this service using remote access servers manufactured by Cisco and Nortel which we are deploying in our supernodes. Supernodes are concentration points for high-speed connectivity to the Internet. We will have 44 supernodes, including nine in our existing markets.

Under the terms of our existing guaranteed revenue contracts, we provide the routing and ancillary equipment for each supernode, as well as data transport service from the incumbent local exchange carrier to our supernode location. Our customers pay us a fixed price per port and compensate us for certain expenses, including space, power and transport, that we may incur above an agreed level. This structure provides highly predictable revenues and costs over the life of each contract, currently ranging from 51 to 57 months. One of these contracts began generating revenues during the third quarter of 2000. Revenues will continue to increase as the contracts are phased in through the second quarter of 2001. We expect these contracts to provide positive margins

and cash flow beginning with the commencement of revenues in the third quarter of 2000.

We purchased approximately \$134.4 million of equipment relating to these contracts during the first quarter of 2000. We sold this equipment to General Electric Credit Corporation and CIT Lending Services Corporation, and leased it back from them, during the second quarter of 2000. The term of this sale-leaseback, including renewal periods, matches the initial term of these data contracts. We purchased an additional \$168.6 million of equipment relating to these contracts during the second quarter of 2000, and in November 2000 obtained financing for this balance from Dresdner Kleinwort Benson North American Leasing, Inc.

REVENUE. Our revenue is derived from the sale of local switched services, long distance services, Centrex-type services, private line services, special access services and Internet access infrastructure. Historically, a significant portion of our revenue has been derived from the resale of switched services. We have transitioned the majority of our customers on-network and as a result the portion of our revenue related to the resale of switched services has decreased to 7% of total revenue for the nine months ended September 30, 2000. We expect that the revenue recognized related to the nationwide data platform guaranteed revenue contracts will continue to increase through the first quarter of 2001 as we begin providing services under these contracts.

RECIPROCAL COMPENSATION. We recognized reciprocal compensation revenue of approximately \$9.7 million, or 15.1% of our total revenue for 1999 and approximately \$14.3 million or 11.1% of our total revenue for the nine months ended September 30, 2000. In May 2000, we reached a resolution of our claims for

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payment of certain reciprocal compensation charges, previously disputed by BellSouth Corporation (see Note 12 of the Notes to Unaudited Condensed Consolidated Financial Statements included in Item 1). Under the agreement, BellSouth made a one-time payment that resolved all amounts billed through March 31, 2000. In addition, we agreed with BellSouth on future rates for reciprocal compensation, setting new contractual terms for payment. Our prior agreement with BellSouth provided for a rate of \$.009 per minute of use for reciprocal compensation. Under the terms of the new agreement, the rates for reciprocal compensation which will apply to all local traffic, including ISP-bound traffic, will decrease over time. The reduction will be phased in over a three-year period beginning with a rate of \$.002 per minute of use in year 2000, \$.00175 per minute of use in year 2001 and \$.0015 per minute of use in year 2002.

We are currently pursuing resolution of this issue with other incumbent local exchange carriers. Our goal is to reach mutually acceptable terms for both outstanding and future reciprocal compensation amounts for all traffic. We cannot assure you that we will reach new agreements with these carriers on favorable terms.

As of September 30, 2000, we have provided reserves which we believe are sufficient to cover any amounts which may not be collected, but we cannot assure you that this will be the case. Our management will continue to consider the circumstances surrounding this dispute periodically in determining whether additional reserves against unpaid balances are warranted.

OPERATING EXPENSES. Our principal operating expenses consist of network operating costs, selling, general and administrative expenses, stock option compensation expense and depreciation and amortization. Network operating costs include charges for termination and unbundled network element charges; charges from incumbent local exchange carriers for resale services; charges from long distance carriers for resale of long distance services; salaries and benefits associated with network operations, billing and information services and customer care personnel; franchise fees and other costs. Network operating costs also include a percentage of both our intrastate and interstate revenues which

we pay as universal service fund charges. National data platform operating expenses include space, power, transport, maintenance, staffing, sales, general and administrative and rental expenses under our operating lease agreement. Certain of these costs are passed through to the carrier customer, which allows us to limit our maintenance and servicing costs to a predetermined level, and to receive offsetting revenues for any costs in excess of that level. Selling, general and administrative expenses consist of sales personnel and support costs, corporate and finance personnel and support costs and legal and accounting expenses. Depreciation and amortization includes charges related to plant, property and equipment and amortization of intangible assets, including franchise acquisition costs. Depreciation and amortization expense will increase as we place additional networks into service or expand existing networks.

INTEREST EXPENSE. Interest expense includes interest charges on our senior notes, senior discount notes and our senior secured credit facilities. Interest expense also includes amortization of deferred financing costs.

RESULTS OF OPERATIONS

As a result of the development and rapid growth of the Company's business during the periods presented, the period-to-period comparisons of the Company's results of operations are not necessarily meaningful and should not be relied upon as an indication of future performance.

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THREE MONTHS ENDED SEPTEMBER 30, 2000 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1999

REVENUE. Revenue increased 290% from \$15.6 million for the three months ended September 30, 1999 (the "1999 Third Quarter") to \$60.9 million for the three months ended September 30, 2000 (the "2000 Third Quarter"). This increase is attributable to our Tier III business deriving revenues from 35 markets during the 2000 Third Quarter compared to 23 markets during the 1999 Third Quarter, as well as to the fact that our data services business began to generate revenues for the first time in the 2000 Third Quarter.

On-network local switched services, long distance services, Centrex-type services, private line services, special access services and Internet access infrastructure revenues ("On-network revenues") represented 96% of total revenue in the 2000 Third Quarter, compared to 69% of total revenue in the 1999 Third Quarter; while revenue derived from the resale of switched services ("Resale revenue") represented 4% and 31% of total revenue, respectively, during those periods. On-network revenues are revenues earned from services provided on our network, including by direct connection to our switch, unbundled network element or dedicated circuit. In addition, we recognized reciprocal compensation revenue of \$4.0 million, or 7% of our total revenues during the 2000 Third Quarter.

NETWORK OPERATING COSTS. Network operating costs, excluding non-cash stock compensation expense, increased 99% from \$23.6 million for the 1999 Third Quarter to \$46.9 million for the 2000 Third Quarter. This increase of approximately \$23.3 million was due primarily to the increase in the number of markets in which we operated in the 2000 Third Quarter as compared to the 1999 Third Quarter and that we began making operating lease payments in the 2000 Third Quarter related to the equipment utilized in the data services business. The detailed components of this increase are \$12.6 million in direct costs associated with providing on-network services, resale services, leasing unbundled network element services and operating lease payments, \$3.9 million in personnel costs, \$3.1 million in consulting and professional services costs, \$2.4 million in network support services, \$600,000 in telecommunications costs, and \$700,000 in other direct operating costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses, excluding non-cash stock compensation expense,

increased 83% from \$22.5 million for the 1999 Third Quarter to \$41.1 million in the 2000 Third Quarter. This increase of approximately \$18.6 million is due primarily to the increase in the number of markets in which we operated in the 2000 Third Quarter as compared to the 1999 Third Quarter. The detailed components of this increase are \$8.3 million in personnel costs, \$3.9 million in consulting and professional services costs, \$1.8 million in facility costs, \$800,000 in telecommunications costs, \$600,000 in travel related costs, as well as increases in other marketing and general and administrative costs aggregating approximately \$3.2 million.

STOCK OPTION COMPENSATION EXPENSE. Stock option compensation expense, a non-cash charge, increased from an aggregate of negative \$7.0 million in the 1999 Third Quarter to an aggregate of \$6.9 million for the 2000 Third Quarter. This increase is due primarily to a more stable estimated fair value of the Company's common stock in the 2000 Third Quarter compared to the 1999 Third Quarter when the estimated fair value of the Company's common stock had decreased.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense increased 168% from \$7.6 million for the 1999 Third Quarter to \$20.4 million for the 2000 Third Quarter. This increase is due primarily to depreciation expense associated with the greater number of networks in commercial operation during the 2000 Third Quarter.

INTEREST INCOME. Interest income decreased 5% from \$4.0 million in the 1999 Third Quarter to \$3.8 million in the 2000 Third Quarter. The decrease is

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due primarily to larger average cash, cash equivalent and restricted cash balances during the 1999 Third Quarter as compared to the 2000 Third Quarter.

INTEREST EXPENSE. Interest expense increased 66% from \$21.8 million in the 1999 Third Quarter to \$36.1 million in the 2000 Third Quarter. Of this increase, \$13.1 million is attributable to higher borrowings under the Amended Senior Secured Credit Facility and \$1.2 million is due to the additional accretion on the Senior Discount Notes. We capitalized interest of \$2.2 million related to network construction projects during the 1999 Third Quarter and \$4.2 million during the 2000 Third Quarter.

NET LOSS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE. For the reasons stated above, net loss before cumulative effect of change in accounting principle increased from \$49.0 million for the 1999 Third Quarter to \$86.7 million for the 2000 Third Quarter.

**NINE MONTHS ENDED SEPTEMBER 30, 2000 COMPARED TO
NINE MONTHS ENDED SEPTEMBER 30, 1999**

REVENUE. Revenue increased 205% from \$42.3 million for the nine months ended September 30, 1999 (the "1999 Nine Months") to \$129.0 million for the nine months ended September 30, 2000 (the "2000 Nine Months"). This increase is attributable to the fact that our Tier III business derived revenues from 35 markets during the 2000 Nine Months compared to 23 markets during the 1999 Nine Months as well to the fact that our data services business began to generate revenues for the first time in the 2000 Third Quarter.

On-network local switched services, long distance services, Centrex-type services, private line services, special access services and Internet access infrastructure revenues ("On-network revenues") represented 93% of total revenue in the 2000 Nine Months, compared to 60% of total revenue in the 1999 Nine Months; while revenue derived from the resale of switched services ("Resale revenue") represented 7% and 40% of total revenue, respectively, during those periods. On-network revenues include revenues derived from services provided through direct connections to our own networks, services provided by means of unbundled network elements leased from the incumbent local exchange

carrier and services provided by dedicated circuit. In addition, we recognized reciprocal compensation revenue of approximately \$14.3 million or 11.1% of our total revenue for the nine months ended September 30, 2000.

NETWORK OPERATING COSTS. Network operating costs, excluding non-cash stock compensation expense, increased 100% from \$56.2 million for the 1999 Nine Months to \$112.2 million for the 2000 Nine Months. This increase of approximately \$56.0 million was due primarily to the increase in the number of markets in which we operated in the 2000 Nine Months as compared to the 1999 Nine Months and to the fact that we first began to make operating lease payments in the 2000 Third Quarter related to the equipment utilized in the data services business. The detailed components of this increase are \$24.8 million in direct costs associated with providing on-network services, resale services, leasing unbundled network element services and operating lease payments, \$15.3 million in personnel costs, \$7.0 million in network support services, \$4.6 million in consulting and professional services costs, \$2.1 million in telecommunications costs and \$2.2 million in other direct operating costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses, excluding non-cash stock compensation expense, increased 98% from \$60.7 million for the 1999 Nine Months to \$120.1 million in the 2000 Nine Months. This increase of approximately \$59.4 million is due primarily to the increase in the number of markets in which we operated in the 2000 Nine Months as compared to the 1999 Nine Months. The detailed components of this increase are \$30.5 million in personnel costs, \$5.1 million in consulting and professional services, \$4.1 million in facility costs, \$2.5 million in telecommunications costs, \$2.2 million in travel related costs, as well as increases in other marketing and general and administrative costs aggregating approximately \$15.0 million.

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STOCK OPTION COMPENSATION EXPENSE. Stock option compensation expense, a non-cash charge, in aggregate increased 124% from \$13.2 million in the 1999 Nine Months to \$29.6 million for the 2000 Nine Months. This increase is due primarily to an increase in the estimated fair value of the Company's Common Stock, as well as the grant of additional option awards, in the 2000 Nine Months, as compared to the 1999 Nine Months.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense increased 168% from \$19.2 million for the 1999 Nine Months to \$51.5 million for the 2000 Nine Months. This increase is due primarily to depreciation expense associated with the greater number of networks in commercial operation during the 2000 Nine Months.

OTHER EXPENSE. During the 1999 Second Quarter, the Company recorded a \$4.3 million charge to other expense in connection with an unfavorable arbitration award. The net amount due under the terms of the award was paid in full in June 1999.

INTEREST INCOME. Interest income increased 19% from \$7.0 million in the 1999 Nine Months to \$8.3 million in the 2000 Nine Months. The increase is due primarily to larger average cash, cash equivalent and restricted cash balances during the 2000 Nine Months as compared to the 1999 Nine Months as well as receiving interest at a higher average rate.

INTEREST EXPENSE. Interest expense increased 98% from \$47.8 million in the 1999 Nine Months to \$94.5 million in the 2000 Nine Months. Of this increase \$27.4 million is attributable to higher borrowings under the Amended Senior Secured Credit Facility, \$14.9 million is related to the issuance of \$275 million of 13 1/2 % Senior Notes in May 1999 and \$4.4 million is due to the additional accretion on the Senior Discount Notes. We capitalized interest of \$3.5 million related to network construction projects during the 1999 Nine Months and \$10.1 million during the 2000 Nine Months.

NET LOSS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE. For the reasons stated above, net loss before cumulative effect of change in accounting principle increased from \$152.2 million for the 1999 Nine Months to \$270.6 million for the 2000 Nine Months.

LIQUIDITY AND CAPITAL RESOURCES

We have incurred significant operating and net losses as a result of the development and operation of our networks. We expect that such losses will continue as we emphasize the development, construction and expansion of our networks and build our customer base. As a result, we do not expect there to be any cash provided by operations in the near future. We will also need to fund the expansion of our existing networks and the building of new networks as well as to fund our capital expenditures related to our nationwide data platform business. To date, we have financed our operating losses and capital expenditures with equity invested by our founders, preferred stock placements, credit facility borrowings, operating leases and the 12 1/2% Senior Discount Notes and the 13 1/2% Senior Notes.

During the first quarter of 2000, we amended, restated and combined our prior Senior Secured Credit Facility and our prior Lucent Facility in a single \$700.0 million facility (See Note 6 of the Notes to Unaudited Condensed Consolidated Financial Statements). Under the amended senior secured credit facility, our subsidiaries which own our 35 existing networks and the 2 Tier III networks which are to be completed during 2000 are permitted to borrow up to an aggregate of \$700.0 million, subject to certain conditions, for the purchase of fiber optic cable, switches and other telecommunications equipment and, once certain financial conditions are met, for working capital and other general corporate purposes.

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During the quarter ended June 30, 2000, our subsidiary, KMC Telecom, IV, Inc., closed a new senior secured term loan (the "Telecom IV Senior Secured Term Loan") from Lucent Technologies Inc. Proceeds from this loan can be used to purchase or install Lucent products. The loan is initially capped at \$35.0 million of principal borrowings (plus accrued interest) until certain conditions are met that allow for additional borrowings up to a ceiling of \$50.0 million (plus accrued interest). This loan will be used to purchase equipment for future expansion.

In July 2000, we issued shares of Series G Convertible Preferred Stock to Lucent Technologies, Dresdner Kleinwort Benson Private Equity Partners, CIT Lending Services, Nassau Capital Partners and Harold N. Kamine, our Chairman, for aggregate gross proceeds of \$182.5 million (See Note 13 of the Notes to Unaudited Condensed Consolidated Financial Statements). The Series G Convertible Preferred Stock has an aggregate liquidation preference of \$182.5 million and an annual cumulative dividend equal to 7% of the liquidation preference. Payment of the unpaid dividends is triggered by an initial public offering in which we receive aggregate gross proceeds of at least \$80.0 million or a merger, consolidation or sale of substantially all of our assets. In such event, we may elect to pay these dividends with additional shares of our common stock.

As of November 8, 2000, we had \$581.3 million and \$34.8 million of indebtedness outstanding under the amended senior secured credit facility and the Telecom IV senior secured term loan, respectively. Subject to certain conditions, as of November 8, 2000, we had an additional \$118.7 million and \$200,000 in borrowing capacity available under these facilities, respectively. The amended senior secured credit facility contains a number of affirmative and negative covenants, one of which requires us to make additional cash capital contributions to our subsidiaries which are the borrowers thereunder of at least \$35.0 million prior to August 31, 2001. The original covenant required \$185.0 million in cash capital contributions by April 1, 2001. However, because we contributed \$150.0 million of the proceeds of our Series G private equity financing toward fulfilling this requirement, the lenders amended this covenant

by extending the due date on the remaining \$35.0 million of cash capital contributions to August 31, 2001. Because the entire \$185.0 million cash capital contribution was not made by July 31, 2000, however, the applicable interest rate associated with the facility has increased by 100 basis points until the remaining \$35.0 million amount is contributed.

Net cash provided by financing activities from borrowings was \$550.6 million and our net cash used in operating and investing activities was \$508.0 million for the 2000 Nine Months.

We made capital expenditures of \$218.5 million in the 1999 Nine Months versus \$254.5 million in the 2000 Nine Months. As of September 30, 2000 we had outstanding purchase commitments aggregating approximately \$96.5 million related to the purchase of fiber optic cable and telecommunication equipment under our agreements with certain suppliers and service providers. Continued significant capital expenditures are expected to be made during the remainder of 2000 and thereafter. The majority of these expenditures are expected to be made for network construction and the purchase of switches and related equipment to facilitate the offering of our services. We expect to continue to incur operating losses while we expand our business and build our customer base. Actual capital expenditures and operating losses will depend on numerous factors, including the nature of future expansion and acquisition opportunities and factors beyond our control, including economic conditions, competition, regulatory developments and the availability of capital.

In addition to the capital expenditures above, we took delivery of approximately \$134.4 million and \$168.6 million of Internet infrastructure equipment in March and June 2000, respectively, in association with entering into agreements with Qwest Communications Corporation (see Note 10 of the Notes to Unaudited Condensed Consolidated Financial Statements). We entered into a lease financing transaction in the 2000 Second Quarter to fund the cost of the \$134.4 million of equipment purchased in March 2000 and in November 2000 we

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entered into a financing transaction to fund the cost of the \$168.6 million of equipment purchased in June 2000.

We believe that our cash and borrowings available under the amended senior secured credit facility will be sufficient to meet our liquidity needs through the completion of our remaining two networks currently planned for completion during 2000, as well as operating losses and capital expenditure requirements for all of our 37 Tier III markets and other existing commitments into the second quarter of 2001. However, our liquidity and financial position will continue to be impacted by our financial performance.

In addition, in the event that our plans change, the assumptions upon which our plans are based prove inaccurate, we expand or accelerate our business plan or we determine to consummate acquisitions, the foregoing sources of funds may prove insufficient and we may be required to seek additional financing sooner than we currently expect. Additional sources of financing may include public or private equity or debt financings, leases and other financing arrangements. We can give no assurance that additional financing will be available to us or, if available, that it can be obtained on a timely basis and on acceptable terms.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to our operations result primarily from changes in interest rates. A substantial portion of our long-term debt bears interest at a fixed rate. However, the fair market value of the fixed rate debt is sensitive

to changes in interest rates. We are subject to the risk that market interest rates will decline and the interest expense due under the fixed rate debt will exceed the amounts due based on current market rates. We have entered into two interest rate swap agreements with commercial banks to reduce the impact of changes in interest rates on a portion of our outstanding variable rate debt. The agreements effectively fix the interest rate on \$415.0 million of our outstanding variable rate borrowings under the amended senior secured credit facility due 2007. A \$325 million interest rate swap agreement entered into in April 2000 terminates in April 2004 and a \$90 million interest rate swap agreement entered into in June 2000 terminates in June 2005. For other information regarding the swap agreements, see Note 11 of the Notes to Unaudited Condensed Consolidated Financial Statements contained in Item 1.

The following table provides information about our significant financial instruments that are sensitive to changes in interest rates (in millions):

	Fair Value on September 30, 2000	Future Principal Payments						Total
		2000	2001	2002	2003	2004	Thereafter	
Long-Term Debt:								
Fixed Rate:								
Senior Discount Notes, interest payable at 12 1/2%, maturing 2008	\$180.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$329.9	\$329.9
Senior Notes, interest payable at 13 1/2%, maturing 2009	243.6	-	-	-	-	-	275.0	275.0
Variable rate:								
Amended Senior Secured Credit Facility, interest variable (11.87% at September 30, 2000) (a)	581.3	-	-	.6	51.2	93.5	436.0	581.3
Telecom IV Senior Secured Term Loan, interest variable (11.31% at September 30, 2000) (a)	34.8	-	-	-	3.5	3.5	27.8	34.8
Interest rate swaps:								
Variable rate for fixed rate	(2.6)	-	-	-	-	-	-	-
Total	\$1,037.1	\$ -	\$ -	\$.6	\$ 54.7	\$ 97.0	\$1,068.7	\$1,221.0

(a) Interest is based on a variable rate, which at our option, is determined by either a base rate or LIBOR, plus, in each case, a specified margin.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Not Applicable.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

(a) Applicable.

(b) Not Applicable.

(c) On July 12, 2000, one entity exercised stock options to purchase 7,500 shares of common stock previously granted to that entity under the 1998 Stock Purchase and Option Plan for Key Employees of KMC Telecom Holdings, Inc. and Affiliates for aggregate gross proceeds of \$562,500. The sale was made in

reliance on the exemption from registration provided by Section 4(2) of the Securities Act, on the basis that the transaction did not involve a public offering. A Stockholder's Agreement executed by the entity contains representations as to its investment intent and imposes substantial restrictions upon transfer of the securities.

On September 8, 2000, the Company granted options to purchase an aggregate of 18,200 shares of common stock to its employees and employees of certain of its affiliates under the 1998 Stock Purchase and Option Plan for Key Employees of KMC Telecom Holdings, Inc. and Affiliates. No consideration was received by the Company for the issuance of the options. Options to purchase 6,000 shares are exercisable at an exercise price of \$250 per share and options to purchase 12,200 shares are exercisable at an exercise price of \$300 per share. The issuance of the options was made in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 4(2) of that Act, on the basis that the transaction did not involve a public offering.

(d) Not Applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

(a)(i) Written consents of the holders of the Company's Common Stock, Series A Cumulative Convertible Preferred Stock and Series C Cumulative Convertible Preferred Stock, voting as a single class, dated as of July 5, 2000, were executed by such holders in lieu of a Special Meeting of such holders.

(a)(ii) Written consents of the holders of the Company's Series A Cumulative Convertible Preferred Stock, voting as a class, dated as of July 7, 2000, were executed by such holders in lieu of a Special Meeting of such holders.

(a)(iii) Written consents of the holders of the Company's Series C Cumulative Convertible Preferred Stock, voting as a class, dated as of July 5, 2000, were executed by such holders in lieu of a Special Meeting of such holders.

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(a)(iv) Written consents of the holders of the Company's Series E Senior Redeemable, Exchangeable, PIK Preferred Stock, voting as a class, dated as of July 5, 2000, were executed by such holders in lieu of a Special Meeting of such holders.

(a)(v) Written consents of the holders of the Company's Series F Senior Redeemable, Exchangeable, PIK Preferred Stock, voting as a class, dated as of July 6, 2000, were executed by such holders in lieu of a Special Meeting of such holders.

(b) Not Applicable.

(c)(i) By written consent, the holders of the Company's Common Stock, Series A Cumulative Convertible Preferred Stock and Series C Cumulative Convertible Preferred Stock, voting as a single class, approved and adopted amendments to the Company's Amended and Restated Certificate of Incorporation (A) to effect an increase in the aggregate number of authorized shares of the Company's capital stock from 4,128,800 to 7,950,000 shares, composed of an increase in the aggregate number of authorized shares of the Company's common stock from 3,000,000 to 4,250,000 and an increase in the aggregate number of authorized shares of the Company's preferred stock from 1,128,800 to 3,700,000, and (B) to delete Articles Eighth and Ninth from the Amended and Restated Certificate of Incorporation. Out of the 1,152,574.9 shares of Common Stock,

Series A Cumulative Convertible Preferred Stock and Series C Cumulative Convertible Preferred Stock issued and outstanding, consents were obtained from the holders of 1,107,372 shares.

(c)(ii) By unanimous written consent, the holders of the Company's Series A Cumulative Convertible Preferred Stock, voting as a class, approved (A) a Certificate of Amendment to the Certificate of the Powers, Designations, Preferences and Rights of the Series A Cumulative Convertible Preferred Stock, par value \$.01 per share, as required by the Certificate of Designations governing the rights of the holders of the Series A Cumulative Convertible Preferred Stock, (B) a Certificate of the Powers, Designations, Preferences and Rights of the Series G-1 Voting Convertible Preferred Stock and the Series G-2 Non-Voting Convertible Preferred Stock and the issuance of up to an aggregate of 1,250,000 shares of Series G-1 Preferred Stock and Series G-2 Preferred Stock, and (C) the amendments to the Company's Amended and Restated Certificate of Incorporation (x) to effect an increase in the aggregate number of authorized shares of the Company's capital stock from 4,128,800 to 7,950,000 shares, composed of an increase in the aggregate number of authorized shares of the Company's common stock from 3,000,000 to 4,250,000 and an increase in the aggregate number of authorized shares of the Company's preferred stock from 1,128,800 to 3,700,000, and (y) to delete Articles Eighth and Ninth from the Amended and Restated Certificate of Incorporation.

(c)(iii) By unanimous written consent, the holders of the Company's Series C Cumulative Convertible Preferred Stock, voting as a class, approved (A) a Certificate of Amendment to the Certificate of the Powers, Designations, Preferences and Rights of the Series C Cumulative Convertible Preferred Stock, par value \$.01 per share, as required by the Certificate of Designations governing the rights of the holders of the Series C Cumulative Convertible Preferred Stock, (B) a Certificate of the Powers, Designations, Preferences and Rights of the Series G-1 Voting Convertible Preferred Stock and the Series G-2 Non-Voting Convertible Preferred Stock and the issuance of up to an aggregate of 1,250,000 shares of Series G-1 Preferred Stock and Series G-2 Preferred Stock, and (C) the amendments to the Company's Amended and Restated Certificate of Incorporation (x) to effect an increase in the aggregate number of authorized shares of the Company's capital stock from 4,128,800 to 7,950,000 shares, composed of an increase in the aggregate number of authorized shares of the Company's common stock from 3,000,000 to 4,250,000 and an increase in the aggregate number of authorized shares of the Company's preferred stock from 1,128,800 to 3,700,000, and (y) to delete Articles Eighth and Ninth from the Amended and Restated Certificate of Incorporation.

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(c)(iv) By written consent, the holders of the Company's Series E Senior Redeemable, Exchangeable, PIK Preferred Stock, voting as a class, approved (A) a Certificate of Amendment to the Certificate of the Powers, Designations, Preferences and Rights of the Series E Senior Redeemable, Exchangeable, PIK Preferred Stock, par value \$.01 per share, as required by the Certificate of Designations governing the rights of the holders of the Series E Senior Redeemable, Exchangeable, PIK Preferred Stock, (B) a Certificate of the Powers, Designations, Preferences and Rights of the Series G-1 Voting Convertible Preferred Stock and the Series G-2 Non-Voting Convertible Preferred Stock and the issuance of up to an aggregate of 1,250,000 shares of Series G-1 Preferred Stock and Series G-2 Preferred Stock, and (C) the amendments to the Company's Amended and Restated Certificate of Incorporation (x) to effect an increase in the aggregate number of authorized shares of the Company's capital stock from 4,128,800 to 7,950,000 shares, composed of an increase in the aggregate number of authorized shares of the Company's common stock from 3,000,000 to 4,250,000 and an increase in the aggregate number of authorized shares of the Company's preferred stock from 1,128,800 to 3,700,000, and (y) to delete Articles Eighth and Ninth from the Amended and Restated Certificate of Incorporation. Out of the 69,815.46 shares of Series E Senior Redeemable, Exchangeable, PIK Preferred Stock issued and outstanding, consents were obtained from the holders of 63,980.32 shares.

(c)(v) By unanimous written consent, the holders of the Company's Series F Senior Redeemable, Exchangeable, PIK Preferred Stock, voting as a class, approved (A) a Certificate of Amendment to the Certificate of the Powers, Designations, Preferences and Rights of the Series F Senior Redeemable, Exchangeable, PIK Preferred Stock, par value \$.01 per share, as required by the Certificate of Designations governing the rights of the holders of the Series F Senior Redeemable, Exchangeable, PIK Preferred Stock, (B) a Certificate of the Powers, Designations, Preferences and Rights of the Series G-1 Voting Convertible Preferred Stock and the Series G-2 Non-Voting Convertible Preferred Stock and the issuance of up to an aggregate of 1,250,000 shares of Series G-1 Preferred Stock and Series G-2 Preferred Stock, and (C) the amendments to the Company's Amended and Restated Certificate of Incorporation (x) to effect an increase in the aggregate number of authorized shares of the Company's capital stock from 4,128,800 to 7,950,000 shares, composed of an increase in the aggregate number of authorized shares of the Company's common stock from 3,000,000 to 4,250,000 and an increase in the aggregate number of authorized shares of the Company's preferred stock from 1,128,800 to 3,700,000, and (y) to delete Articles Eighth and Ninth from the Amended and Restated Certificate of Incorporation.

(d) Not Applicable.

ITEM 5. OTHER INFORMATION.

Not Applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) EXHIBITS

3.1 Certificate of Amendment of the Amended and Restated Certificate of Incorporation of KMC Telecom Holdings, Inc. dated July 7, 2000 (incorporated herein by reference to Exhibit 3.5 to KMC Telecom Holdings, Inc.'s Registration Statement on Form S-1 filed on September 19, 2000 (hereinafter referred to as the "KMC Holdings' S-1")).

3.2 Certificate of Amendment to the Certificate of the Powers, Designations, Preferences and Rights of the Series A Cumulative

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Convertible Preferred Stock, Par Value \$.01 Per Share, dated July 7, 2000 (incorporated herein by reference to Exhibit 3.10 to KMC Holdings' S-1).

3.3 Certificate of Amendment to the Certificate of the Powers, Designations, Preferences and Rights of the Series C Cumulative Convertible Preferred Stock, Par Value \$.01 Per Share, dated July 7, 2000 (incorporated herein by reference to Exhibit 3.14 to KMC Holdings' S-1).

3.4 Certificate of Amendment to the Certificate of Voting Powers, Designations, Preferences and Relative Participating, Optional or Other Special Rights and Qualifications, Limitations and Restrictions Thereof of the Series E Senior Redeemable, Exchangeable, PIK Preferred Stock, dated July 7, 2000 (incorporated herein by reference to Exhibit 3.20 to KMC Holdings' S-1).

3.5 Certificate of Amendment to the Certificate of Voting Powers, Designations, Preferences and Relative Participating, Optional or Other Special Rights and Qualifications, Limitations and Restrictions Thereof of the Series F Senior Redeemable,

Exchangeable, PIK Preferred Stock, dated July 7, 2000 (incorporated herein by reference to Exhibit 3.24 to KMC Holdings' S-1).

3.6 Amendment No. 1 to the Amended and Restated By-Laws of KMC Telecom Holdings, Inc., amended as of July 5, 2000 (incorporated herein by reference to Exhibit 3.27 to KMC Holdings' S-1).

27 Financial Data Schedule.

(b) REPORTS ON FORM 8-K

(b)(i) A report on Form 8-K was filed by the Registrant on July 12, 2000 pursuant to Item 5 thereof reporting certain information with respect to the issuance of Series G Convertible Preferred Stock. Such information was disclosed in a Press Release, dated July 12, 2000, filed as an exhibit to such report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 14, 2000

KMC TELECOM HOLDINGS, INC.
(Registrant)

By: /S/ WILLIAM F. LENAHAN

William F. Lenahan
Chief Executive Officer
(Principal Executive Officer)

By: /S/ WILLIAM H. STEWART

William H. Stewart
Chief Financial Officer
(Principal Financial Officer)

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EXHIBIT INDEX

NO.	DESCRIPTION
3.1	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of KMC Telecom Holdings, Inc. dated July 7, 2000 (incorporated herein by reference to Exhibit 3.5 to KMC Telecom Holdings, Inc.'s Registration Statement on Form S-1 filed on September 19, 2000 (hereinafter referred to as the "KMC Holdings' S-1")).
3.2	Certificate of Amendment to the Certificate of the Powers, Designations, Preferences and Rights of the Series A Cumulative Convertible Preferred Stock, Par Value \$.01 Per

Share, dated July 7, 2000 (incorporated herein by reference to Exhibit 3.10 to KMC Holdings' S-1).

- 3.3 Certificate of Amendment to the Certificate of the Powers, Designations, Preferences and Rights of the Series C Cumulative Convertible Preferred Stock, Par Value \$.01 Per Share, dated July 7, 2000 (incorporated herein by reference to Exhibit 3.14 to KMC Holdings' S-1).
- 3.4 Certificate of Amendment to the Certificate of Voting Powers, Designations, Preferences and Relative Participating, Optional or Other Special Rights and Qualifications, Limitations and Restrictions Thereof of the Series E Senior Redeemable, Exchangeable, PIK Preferred Stock, dated July 7, 2000 (incorporated herein by reference to Exhibit 3.20 to KMC Holdings' S-1).
- 3.5 Certificate of Amendment to the Certificate of Voting Powers, Designations, Preferences and Relative Participating, Optional or Other Special Rights and Qualifications, Limitations and Restrictions Thereof of the Series F Senior Redeemable, Exchangeable, PIK Preferred Stock, dated July 7, 2000 (incorporated herein by reference to Exhibit 3.24 to KMC Holdings' S-1).
- 3.6 Amendment No. 1 to the Amended and Restated By-Laws of KMC Telecom Holdings, Inc., amended as of July 5, 2000 (incorporated herein by reference to Exhibit 3.27 to KMC Holdings' S-1).
- 27 Financial Data Schedule.

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EX-27 OTHERDOC

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET OF KMC TELECOM HOLDINGS, INC. AS OF SEPTEMBER 30, 2000 AND THE RELATED STATEMENT OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

9-MOS
Dec-31-2000
Jan-1-2000
Sep-30-2000
128,520,000
0
56,398,000
(7,665,000)
0
391,243,000

930,760,000
(87,899,000)
1,363,780,000
344,691,000
604,933,000
513,196,000
0
6,000
(715,167,000)
1,363,780,000
0
129,025,000
0
112,234,000
201,213,000
0
94,473,000
(270,605,000)
0
(270,605,000)
0
0
(1,705,000)
(272,310,000)
(402.51)
(402.51)